Austria	Sch22	Indonesia	Rp3100	Portugal	Esc100
Bahrain	Din0.650	Israel	NIS3.50	S.Arabia	Rls7.00
Belgium	BFr48	Italy	L1600	Singapore	S$4.10
Canada	C$1.00	Japan	Y600	Spain	Pta125
Cyprus	C£0.75	Jordan	Fils500	Sri Lanka	Rup30
Denmark	DKr9.00	Kuwait	Fils500	Sweden	SKr9.00
Egypt	E£1.25	Lebanon	[illegible]	Switz	SFr2.20
Finland	FmK7.00	Lux	LFr48	Taiwan	NT$65
France	FFr6.50	Malaysia	Rlm4.25	Thailand	Bht50
Germany	DM2.20	Mexico	[illegible]	Tunisia	Din0.800
Greece	Dr100	Morocco	Dh6.00	Turkey	L500
Hong Kong	HK$12	Neth	Fl3.00	UAE	Dh6.50
India	Rup15	Norway	NKr10.00	USA	$1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,490 Wednesday March 16 1988 D 8523 A

US, Soviet Union discuss military strategy, Page 2

World News

Soviets to delay Afghanistan withdrawal

The Soviet Union said its planned troop withdrawal from Afghanistan would be delayed until two months after a peace agreement was signed at talks in Geneva.

Moscow said an original offer to begin the pull-out on May 15 was conditional on an accord being signed by March 15. "If the date of signing the accords is put off, the start of the pull-out will be postponed as well," a statement said. Pakistan refuses to budge, Page 3

US refuses to accept Panama expulsion

The US said it refused to accept an order by the Government of military leader Manuel Antonio Noriega expelling an American diplomat from Panama.

'Sharpeville' pleas

President Ronald Reagan and Mrs Margaret Thatcher, the British Prime Minister, yesterday urged South Africa to grant clemency to tha "Sharpeville Six", five black men and a woman condemned to hang for complicity in the 1984 mob killing of a black township councillor. Rewnewed pleas, Page 3

Shultz-Shamir deadlock

US Secretary of State George Shultz said his talks with Israeli Prime Minister Yitzhak Shamir had reached a deadlock. Page 26

Sandinistas accused

The US accused Nicaragua of mounting its largest military offensive against Contra rebels and said this was at odds with Managua's expressed willingness to negotiate a ceasefire in Nicaragua's seven-year-old civil war.

Salvador traffic ban

Leftwing guerrillas in El Salvador said they would enforce a nationwide traffic ban to disrupt next Sunday's legislative elections.

Azerbaijan 'pogroms'

The Soviet Union admitted that the "most terrible crimes" and "pogroms" took place last month when gangs of young Azerbaijanis hunted down Armenians in the Azerbaijan city of Sumgait. Page 2

Hungarian demo

More than 10,000 people chanting "democracy" and demanding reforms marched through Budapest. Earlier, Hungarian police arrested four leading members of the country's opposition on subversion charges. Page 2

Buthelezi threat

Zulu Chief Mangosuthu Buthelezi, regarded as South Africa's most important black moderate, said he would abandon his approach if Pretoria continued its crackdown on black dissent.

Fresh clemency pleas

Worldwide protests and renewed pleas for clemency followed an announcement by South African authorities that six blacks convicted of complicity in the killing of a Sharpeville township councillor, who was hacked and burnt to death, would be executed on Friday. Page 3

Ozone layer 'thinner'

Scientists in Washington said the ozone layer that shields the earth from harmful ultraviolet radiation was being depleted worldwide.

Blacks 'no better off'

Britain's black and Asian workers were no better off than they were 20 years ago despite a series of laws aimed at reducing inequality in the workplace, a report said.

Self service

Thieves fitted a fake credit-card terminal over the real thing at an all-night petrol station in Montpellier, France, returning before dawn to collect the cards it swallowed.

Business Summary

Court seeks SEC advice on FDS bid battle

CRUCIAL COURT ruling that could decide who will control Federated Department Stores, biggest US department store group, has been delayed, at least until today, while the judge seeks guidance from the Securities & Exchange Commission on the lawsuit brought by R.H. Macy, private New York retailer, against rival Campeau of Torontoi in the battle for Federated, Page 27

SOCIETE GENERALE de Belgique, Belgium's largest company, set April 14 as the date for an extraordinary general meeting which could mark a decisive confrontation between Mr Carlo De Benedetti, Italian industrialist and the Franco-Belgian shareholder camp trying to defeat his takeover bid.

WALL STREET: The Dow Jones industrial average closed down 2.66 at 2,047.41. Page 50

TOKYO: Late buying of giant capital steels and shipbuildings gave share prices a boost in Tokyo, *with volume rebounding* to the levels of late last week. The Nikkei average ended 42.16 higher at 25,475.67. Page 50

LONDON: UK Budget won general approval from the London securities market, with the FT-SE 100 index closing up 20.4 at 1,839.9 in high turnover. Page 46

DOLLAR closed in New York at DM1.6700; Y127.40; SFr1.3805; FFr5.6740. It closed in London at *DM1.6650 (DM1.6630); Y127.10* (Y126.90); SFr1.3765 (SFr1.3725); FFr5.6600 (FFr5.6500). Page 39

STERLING closed in New York at $1.8455. It closed in London at $1.8545 ($1.8530); DM3.0875 (DM3.0825); Y235.75 (Y235.25); SFr2.5525 (SFr2.5425); FFr10.4950 (FFr10.4700). Page 39

US ECONOMY was weathering the stock market crash surprisingly well and could even be close to overheating, Alan Greenspan, Federal Reserve Board Chairman, said.

SAINT-GOBAIN, French glass and packaging group, raised its offer to buy ont the minority shareholders in CertainTeed, US glass fibre and piping subsidiary.

COCA-COLA, Atlanta-based soft drinks and snack fcods group, said it would record a $51m non-cash equity loss in the first quarter as a result of a $105m deficit to be posted by Columbia Pictures Entertainment, US film group.

COLECO INDUSTRIES, US toys company which manufactures Cabbage Patch dolls, made a loss of $98.8m in the fourth quarter and said it would stop interest payments on $335m of subordinated debts. Page 27

BELL GROUP, diversified Australian group, announced the sale of its 11.6 per cent interest in Australian Newsprint Mills and its 8.3 per cent stake in Australian Associated Press. Page 29

GENERAL MILLS, big Minneapolis food and restaurant group, increased net income by 25.5 per cent to $71.4m in its third quarter ended February, on a 10 per cent rise in sales to $1.44bn. Page 27

ISRAEL DISCOUNT Bank group has confirmed preliminary indications that the Israeli banking sector turned in sharply higher profits last year than in 1986, despite increased provisions for doubtful loans. Page 29

JAPAN'S Ministry of Health and Welfare has postponed plans to break the monopoly of trust funds and life insurance companies over the management of corporate pension funds. Page 30

STANDARD & POOR'S, US credit rating and financial analysis company, has announced a radical restructuring of its S&P 500 index. Page 30

KENNETH ROWE, Canadian entrepreneur, has raised his bid for Leigh Instruments, the Ottawa avionics group which last week recommended a C$96.4m ($77.12m) offer from Plessey, the UK telecoms and electronics group.

BRITISH CHANCELLOR'S BUDGET SPEECH PROVOKES STORM IN PARLIAMENT

Lawson unveils sweeping reforms to UK tax system

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT, IN LONDON

MR NIGEL LAWSON, the Chancellor of the Exchequer, yesterday announced a sweeping overhaul of Britain's taxation system, cutting the basic rate of income tax to 25 per cent and replacing six higher-income tax bands with one of 40 per cent in a budget with overall tax reductions worth a net £4bn ($7.4bn).

Mr Lawson's "radical, reforming" budget brings the UK into line with recent tax changes in the US, Canada and other industrialised countries.

Opposition members of parliament, however, erupted in anger during Mr Lawson's 75-minute budget speech, which was twice unprecedentedly interrupted by Scottish Nationalist and left-wing Labour Party MPs. Mr Alex Salmond, a Nationalist MP, was expelled from the packed chamber after shouting that tax cuts were an obscenity.

Mr Lawson cut the basic rate of taxation, paid by about 95 per cent of Britons, by 2 percentage points to 25 per cent. The rate stood at 33 per cent when the Conservatives were first elected in 1979. Six upper rates, from 40 to 60 per cent, were replaced by a single higher rate of 40 per cent.

The Chancellor set a new long-term target of cutting the basic tax rate to 20 per cent. He also promised fully independent taxation of husbands and wives from 1990. He said that Government finances would show a £3bn surplus both this year and next, the first surplus since 1969-70.

This year's budget, the annual exposition of the Government's proposed revenues and spending for the succeeding financial year, was marked during its traditionally secret preparation by public differences between the Chancellor and Mrs Margaret Thatcher, the Prime Minister, over exchange rate policy.

Mr Lawson, with his wife Therese, leaves No. 11 Downing Street for the Commons armed with the traditional budget box

ON OTHER PAGES

- Mr Lawson's speech in full, Pages 12, 13
- Budget details, Pages 12 - 21
- Budget analysis, Pages 22, 23
- Implications; Editorial comment, Page 24
- Observer - 'All very Tory,' Page 25
- Lex - 'Less nourishing than it looks,' Page 26

Yesterday's package received a muted reception in the City of London. There remained uncertainty over exchange rate policy, as Mr Lawson avoided a specific pledge to stabilise the pound against the D-Mark.

Mr Lawson, predicting a further year of strong economic growth and low inflation, said that the Government's strategy had transformed the performance of Britain's economy.

The combination of lower tax rates, the first repayment of the national debt for 20 years, and an already-announced £2.5bn increases in public spending in 1988-89 underlined the "virtuous circle" it had now created.

As well as the cuts in income tax rates and the plan for a new system of allowances for married couples in 1990, he unveiled some 20 measures to simplify the tax structure, to reduce the number of "perks" and to raise extra revenue.

These include the abolition of capital gains tax on assets acquired before 1982, a sharp reduction in the tax benefits of company cars, and the abolition of mortgage interest relief for home improvements. Mortgage interest relief will also be restricted to one allowance for each property from next August.

Overall, excise duties are to rise roughly in line with last year's inflation rate of 3.7 per cent, but those on leaded petrol and derv will increase by more in order to pay for a freeze on the levy on unleaded petrol and in vehicle excise duty.

There was no announcement of extra cash for the National Health Service. But Mr Lawson hinted that the Treasury will fund much if not all of the nurses' pay award by saying that NHS spending would rise by at least the £1.1bn already planned.

Janet Bush in New York adds: UK companies quoted on Wall Street showed very little movement in reaction to yesterday's Budget.

US equity dealers said the Budget yielded few surprises but was generally well received, although there appeared to be a measure of concern about further stimulus to the economy at a time when the trade balance was deteriorating.

London stock exchange, Page 46; World markets, Page 50

STERLING RISES AS STATEMENT WINS BROAD WELCOME

THE CITY of London yesterday gave Mr Nigel Lawson's fifth Budget broad support but its enthusiasm was qualified by concerns over the size of his tax giveaway, write Simon Holberton and Ralph Atkins in London.

Analysts thought the Chancellor of the Exchequer's economic forecasts were generally credible, although doubts were raised that *£4bn ($7.4bn) of tax cuts might* worsen Britain's trade account problems.

It was disappointed, however, with Mr Lawson's failure to clarify last week's decision to allow the pound to rise above its unofficial ceiling of DM3.00.

The Budget was seen as positive for equity prices in the short term and the FT-SE 100 Share Index closed 20.4 points up at 1,839.9 – its highest closing level since October 21, two days after the Black Monday collapse in world equity prices. The FT Ordinary Share Index closed 10.4 points better at 1,470.4.

The pound also gathered strength as the Chancellor began *his speech* to the *House of Commons*. When it rose to DM3.09 and $1.8600 and threatened to rise further the Bank of England intervened. The pound closed at DM3.0875 compared with DM3.0825 on Monday, and at $1.8545 compared with $1.8530.

The gilt-edged securities market, however, failed to take encouragement from the Budget. By the close of trading prices on long-dated British Government securities were more than a point lower and yields up from around 9.08 per cent to 9.25 per cent.

Mr Lawson was criticised for not being more forthcoming on the Government's exchange rate policy, especially after last *week's decison to allow* the pound to rise above DM3.00 and the subsequent confusion generated by the apparently conflicting statements made by himself and Mrs Margaret Thatcher, the Prime Minister.

He chose instead to emphasise and reiterate the Government's determination to control inflation. This was taken by analysts as a sign that unlike the case with past Budgets the Government was in no hurry to see lower interest rates.

Mr Ian Harwood, chief UK economist with Warburg Securities, said the Chancellor's key concern was clearly inflation, but that he had chosen to adopt a *relatively* tight monetary stance compared with his fiscal stance. He thought the Chancellor had been optimistic with his £4bn current account deficit forecast.

Mr Bill Martin, chief UK economist at Phillips & Drew, described the £4bn giveaway as

Continued on Page 26

Texas bank seeks US Government rescue amid heavy losses

By James Buchan in New York

First RepublicBank, the largest bank holding company in Texas, yesterday sought aid from the US Government in a bid to forestall the threat of failure at its main Dallas bank and other operations.

The rescue, if it goes ahead, could be one of the largest in US banking history, equalling the $4.5bn bail-out of Chicago's Continental Illinois in 1984.

First RepublicBank, which faces catastrophic losses on bad property loans and has suffered a run on deposits, said yesterday that it is holding preliminary talks with the Federal Deposit Insurance Corporation on a programme to restructure and recapitalise the company.

But industry specialists warned yesterday that First RepublicBank could face a big challenge in raising capital even with guarantees from the FDIC, the Washington agency which insures US bank deposits.

First RepublicBank stock, which was trading at $25 only six months ago, slumped $\frac{1}{4}$ to $1\frac{1}{2}$ yesterday.

Mr Gerald Fronterhouse, the group's chairman, said: "Naturally, we had hoped to work our way out of the current difficulties without assistance from the FDIC. However, we are now announcing this changed course of action to help clear away any concerns our customers may have."

Yesterday's decision, which came at a board meeting which reviewed the group's first-quarter performance, is a shattering blow to the once proud Dallas institution and raises serious questions about the future of the entire Texas banking industry.

Last year, Mr Fronterhouse stunned the industry by acquiring a troubled local rival, InterFirst, in a bold attempt to muscle his way out of the crisis in the state's real estate and energy markets.

But steady deterioration in real estate values, especially in Dallas, caused bad loans to jump to around $3.9bn at the end of last year as against total assets of $33.4bn.

Provisions against these loans caused the group to lose $656.3m last year and rumours about the group's financial health helped bleed deposits from the group's banks.

First RepublicBank said the rumours had interfered with attempts to restructure the property loans.

Arabs turn the heat on West Bank 'informers'

By Andrew Whitley in Jerusalem

THE GRISLY MURDER in a Jericho refugee camp last week of an off-duty Arab policeman came as a severe shock to many Palestinians.

A clandestine leaflet from the underground leadership of the uprising had warned a few days earlier that the heat was about to be turned on Israel's local allies; but few had expected such a swift signal of its authors' deadly seriousness.

Tragically, Mr Nabil Jumma Farah, a 30-year-old serving in Bethlehem, had tried earlier to resign from the local force – which was entrusted with such evidently non-political tasks as traffic control and ordinary crime – after Molotov cocktails had been thrown at his house. But according to his cousin his Israeli superiors had refused to accept the resignation.

Since then, however, the floodgates have opened and at least 500 of his colleagues have turned in their guns and police identity cards, leaving the West Bank and Gaza Strip, in the words of Mr Haim Bar-Lev, the Israeli Police Minister, to the mercy of thieves and traffic offenders.

For several weeks, Palestinian crowds have been directing their wrath against kinsmen who engage in a more shadowy form of co-operation with the Israeli authorities: informers for the Shin Bet, Israel's internal secret police.

Yellow Time, last year's best-seller by the Israeli author, Mr David Grossman, showed how everyone in his archetypal village knew the identity of the local collaborator of the Shin Bet. It was an open secret to which no one, at that time, felt the need to respond.

The network of "trusties" built up over two decades had been a foundation stone of Israel's confident, low-key system of control over the occupied territories. The privileged among them were issued with an Uzi sub-machine gun.

Three weeks ago, a particularly notorious informer in the West Bank village of Qabbatiyeh turned his concealed weapon on his own people before, to the mortification of the security forces, he was overwhelmed and lynched.

Determined to prevent a repetition, the army responded with severity, arresting well over a dozen villagers, demolishing four houses and slapping on a strict curfew still in force today.

Continued on Page 26

Reagan creates strong team to prevent another Wall St crash

BY LIONEL BARBER IN WASHINGTON

PRESIDENT Ronald Reagan is to create an inter-agency committee to try to develop a consensus on regulatory changes to prevent another stock market crash.

There was speculation in Washington yesterday that the committee's high-powered remit and membership could provide the nucleus of a future crisis management team for the financial markets.

It is to be headed by Mr James Baker, US Treasury Secretary, and will include the heads of the Federal Reserve (the US central bank), the Commodities Futures Trading Commission and the Securities and Exchange Commission.

The committee will be established shortly by excecutive order of the President and follows in-fighting in the Administration over reform of the financial markets.

On Capitol Hill, where leading Democrats in House and Senate want to introduce legislation on market reform this year, Mr Reagan's planned committee was viewed cautiously.

The Baker committee is expected to report to the President within 60 to 90 days and will focus on questions such as the need for a new inter-market co-ordinating agency, and the desirablity of raising margins in the futures markets.

These were two of the central recommendations made two months ago by the Brady Commission, President Reagan's task force investigating the October Crash, but they have sharpened divisions within the Administration on regulatory reform.

Dr Beryl Sprinkel, chairman of the President's Council of Economic Advisers and a Cabinet member, has lobbied vigorously against the Brady report. The Federal Reserve, anxious to stay out of the firing line in an election year, has rejected Brady's suggestion that it could assume the role of inter-market co-ordinator.

Mrs Wendy Gramm, the new CFTC chairman, opposes raising margins in the futures markets or transferring regulatory functions to the SEC, a move favoured by Mr David Ruder, the SEC chairman

Mr Baker's role will be to fashion a consensus among these warring factions and to suggest the scope and method of financial market reform. "This is not a study group, it is an action group," said an Administration official.

White House officials stressed that President Reagan had not ruled out legislative action this year on stock market reform, but the committeee would "see what can ba done within existing authority."

One senior US official familiar with the proposal said the Baker committee, through its membership, could write a regulatory role for itself in a future report. "It holds its future in its own hands," he said. "Who knows what could happen if it is successful?"

However, Senator William Proxmire, Democrat chairman of the Senate Banking Committee is concerned about possible Administration foot-dragging.

In a letter to the White House Senator Proxmire said he wanted separate legislative recommendations from regulatory agencies by March 31.

CONTENTS

PANAMA'S FIRST FAMILY PONDERS THE US-NORIEGA SHOWDOWN

Dame Margot Fonteyn sees the Panama crisis through the eyes of her ex-politician husband, Tito Arias, Page 26

William Dullforce on a rare meeting between defence ministers to discuss and compare fundamental strategy changes

Words and doctrines across the superpowers' military divide

US AND SOVIET defence ministers are meeting for only the second time since the Second World War in Bern to discuss the possibility of fundamental changes in the military strategies of the two super-powers.

Mr Frank Carlucci, the US Secretary of Defence, wants to sound out General Dimitri Yazov, the Soviet Defence Minister, about hints from Moscow that the Soviet Union is switching its military doctrine from offence to defence.

Gen Yazov said before his departure from Moscow that the two would "discuss and compare" the basic provisions of their military doctrines.

Lt Gen Colin Powell, President Reagan's national security advisor, recently described the two-day meeting in the Swiss federal capital as "very significant and very important."

A strictly bilateral affair, the encounter was arranged during the Washington summit meeting in December, at which President Reagan and Mr Mikhail Gorbachev signed the agreement scrapping all their intermediate-range nuclear forces (INF).

Mr Gorbachev then floated the idea that the two powers should start discussing their military doctrines.

US and Soviet officials had been talking about a top-level defence meeting since Mr Reagan was elected in 1980. Gen Yazov and Mr Caspar Weinberger, the former US Defence Secretary, exchanged invitations, but fixed no date.

The only occasion on which US and Soviet defence ministers have met since 1945 was during the summit meeting between President Jimmy Carter and Mr Leonid Brezhnev in Vienna in 1979, when Mr Harold Brown and Marshal Dimitri Ustinov held a brief exchange.

Arms control figures prominently on the agenda for the Carlucci-Yazov meeting. US and Soviet negotiators in Geneva are trying to complete in time for the next Reagan-Gorbachev summit in Moscow at the end of May or beginning of June a treaty reducing by half the two sides' strategic nuclear arsenals.

Talks, involving Nato and Warsaw Pact partners, have been broached on conventional weapons. Progress in Geneva towards an international convention banning chemical weapons has been slowed by differences over verification and Soviet suspicion over Washington's decision to push ahead with the production of so-called binary chemical weapons.

The US will raise in Bern what it terms "dangerous activities." By this it means incidents such as the killing of an officer, when a US liaison mission was shot at in East Germany, and the recent collision between US and Soviet warships in the Black Sea.

US officials also expect the withdrawal of Soviet forces from Afghanistan, an issue currently nearing climax in UN-sponsored talks in Geneva, to be raised.

Crucial as all these items are for East-West detente, the greatest long-term impact from the Bern meeting could nevertheless come from the US decision to take up Mr Gorbachev's suggestion that military doctrines be reviewed.

Mr Carlucci wants Gen Yazov to clarify what the Soviets mean by "reasonable sufficiency" and "defence sufficiency." These terms have surfaced in domestic debate in Moscow and imply that a fundamental shift is occurring under Mr Gorbachev from an offensive to a defensive Soviet military stance.

Gen Yazov himself wrote in a book published last year that under Soviet doctrine defence was considered to be "the main form of military operations."

As a military officer, Lt Gen Powell said earlier this month, he would need to "see what they do on the ground" as well as to writing. At the moment the Soviet force on the ground was clearly offensive, he added.

Washington would also like the Soviets to give effect in recent statements that they were ready to unveil more detail about their defence budget, Lt Gen Powell said.

Nevertheless, US officials acknowledge, the implications of a change in Soviet doctrine could be far-reaching, if it was applied in the talks on conventional forces in Europe which are soon to get underway.

Nato has argued that Soviet superiority in critical, offensive elements, such as tanks, would have to be removed before reductions in conventional force levels could be negotiated.

Two days in Bern will not seal any new US-Soviet deal on military doctrine but, to Lt Gen Powell's view, it would be a very significant first step, if both sides "came away with a clearer understanding of the force structure and the doctrinal differences" between them.

The US expects to follow up through more frequent contacts between high-ranking military leaders. A meeting between Admiral William Crowe, chairman of the US joint chiefs of staff, and Marshal Sergei Akhromeyev, the Soviet chief of staff, has already been mooted and may be agreed in Bern.

Moscow offers compromises in chemical arms talks

THE SOVIET UNION yesterday offered compromise solutions to some outstanding problems in the 40-nation United Nations conference negotiating a global ban on chemical weapons, writes William Dullforce in Geneva.

Mr Yuri Nazarkin, the chief Soviet delegate, simultaneously voiced concern about a slowdown in the talks and charged that some countries were aiming for partial measures instead of a complete ban on chemical weapons.

He linked these "signs of deviation" from the agreed objective with the production of binary weapons. These are munitions containing agents which become lethal only when mixed on firing. The US started making a 155mm howitzer shell with nerve gas components late last year as part of its programme to modernise its ageing stockpile.

To meet US opposition to too frequent and too close inspection of private chemical operations, Mr Nazarkin yesterday proposed that companies making so-called key precursors with capacities exceeding 1 tonne should be subject to no more than five inspections a year.

Key precursors are agents used in the chemical industry which could also play an important part to the production of toxic chemicals.

In a gesture to the French the Soviet Union yesterday proposed an order of destruction for chemical weapons under which stocks would be levelled out by the ninth of the 10 years envisaged in the draft UN convention. The French have insisted for national security reasons on retaining and modernising their stocks until other countries have reduced theirs to corresponding levels.

Some categories of stocks, such as unfilled chemical munitions, could be scheduled for destruction by the end of the fourth year, Mr Nazarkin suggested.

He also proposed that a multilateral procedure for the exchange of data be adopted instead of the present ad hoc system under which one country releases information and challenges others to follow suit.

To supplement its earlier disclosures on the size of its stockpiles — put at 50,000 tonnes — the Soviet Union yesterday declared that there were no chemical weapons belonging to other states on its territory and that it had transferred to other states the technology for producing chemical weapons.

Mr Nazarkin acknowledged that a chemical weapons convention could not now be completed by the end of May, as he had previously forecast. But, he insisted, it could still be done before the end of the year.

Armenians killed in Azerbaijan 'pogroms'

By Lesley Colitt in Moscow

THE SOVIET UNION admitted that the "most terrible crimes" and "pogroms" took place last month when gangs of young Azerbaijanis hunted down Armenians in the Azerbaijan city of Sumgait.

The Soviet deputy prosecutor general, Mr Alexander Katusev, told the Azerbaijan Communist party newspaper there were "massive disorders accompanied by pogroms, arson and other outrages...the most terrible crimes."

His account was the most serious yet by a Soviet official. It was the first to use the word "pogrom" which stems from the Czarist killings of Jews and which underscored the ethnic violence which took place last month.

Previous official Soviet accounts spoke of 32 people killed on February 28 in Sumgait, but Armenian sources said there were hundreds of deaths as rampaging gangs of youths murdered Armenians.

A prominent Soviet journalist, Mr Yegor Yakovlev, warned that incidents like the anti-Armenian riots showed that problems between the nationalities in the Soviet Union could "spark a chain reaction."

Mr Yakovlev, who is editor of the liberal Communist newspaper, Moscow News, said it was "criminal" to deal with nationality problems only when they burst into Soviet life like an oil gusher and one spark was "enough for a blast to follow."

He noted that domestic opponents of Mr Mikhail Gorbachev would blame what happened to the Armenians on Mr Gorbachev's attempt to democratise Soviet society.

Fears have been expressed that the Soviet leader's policies of perestroika and glasnost could falter as a result of the ethnic violence and fears of reverberations among other nationalities in the Soviet Union.

Mr Gorbachev, however, on a visit to Yugoslavia, said the clashes last month were questions of a "cultural and technical character" which had escaped the attention of the Moscow leadership. Western diplomatic analysts in Moscow said this indicated a cautious approach to solving the volatile nationality problem.

Mr Yakovlev blamed the failure of Moscow's nationalities policy on the late dictator Josef Stalin who he said reduced it to "ABC primitivism." Subsequent regimes, he said, had done nothing to improve the situation.

A recent meeting of the prestigious Soviet Writers Union disclosed that massive violations of civil rights for non-Russians — who make up 49 per cent of the Soviet population — were a major cause of tension.

The Ukrainian writer, Mr Yuri Mushketik, noted bitterly that there were 116 Russian language schools in the Dnepropetrovsk region and only nine Ukrainian schools. Others authors noted that native language schools had been closed down decades ago in several republics.

MEPs back insurance free market

By William Dawkins in Brussels

EUROPEAN MEPs yesterday welcomed plans to open up a free market for insurance for large commercial risks, but are sticking to their demands for extra consultations on the scheme.

The plan yesterday won broad support from the European Parliament's legal affairs committee, keen to head off fears in the Council of Ministers that extra debate might create serious delays.

Lady Elles, the Conservative MEP chairing the committee, said that, barring any unexpected hitches, the full Parliament could give its preliminary assent to the scheme in May, with a second reading in June, following which the plan would need the final rubber stamp from member states before it could be put into effect. "Despite the change of procedure, we are going on with all possible speed," she said.

The proposal would allow non-life insurers to do business in other member states without having to go to the cost of setting up offices there. Member states formally accepted it late last year, some 14 years after it was first put forward by the European Commission and nearly 10 years after the Strasbourg Assembly had given its opinion on the directive.

However, the Parliament felt that the plan had changed so much in that time that it should be consulted again under new procedures introduced with the constitutional reforms in the Single European Act, which give the Parliament two readings instead of just one as formerly.

If MEPs now wish to introduce amendments, the deadline for which falls on April 6, this could force member states in their turn to re-open what has been an already vexed debate. Member states need to be unanimous to over-ride changes suggested by the parliament.

Failure to follow the new consultation procedures would mean that "at any later stage, any member state could have recourse to the European Court of Justice to request annulment of the directive," explained Lady Elles. Although the directive has already been passed by the Council, it is no secret that the southern member states are anxious about the consequences of exposing their relatively inefficient insurance industries to competition from the north.

Brussels fights to end lorry quotas

BY WILLIAM DAWKINS IN BRUSSELS

EUROPEAN Commission officials are to lobby transport ministers throughout the Community over the next few months in a final attempt to resolve a bitter deadlock over its proposals to liberalise the road haulage industry.

The move follows the late night breakdown of talks with transport ministers in Brussels on Monday when West Germany, main opponent of the liberalisation plans, persuaded 10 other member states to refuse to give a firm commitment to end the system of country-to-country licensing to control cross-border lorry traffic.

Only Britain now supports the Commission's insistence that member states must give a legally binding guarantee to end lorry quotas — which govern more than half of all road freight in the EC — after the 1992 deadline for the creation of a genuine single market.

Neither the UK nor the Brussels authorities yesterday showed any signs of moving their position. "We haven't much further to travel, but the bit that we have left is the most difficult part," said a Commission official. He was cautiously confident, however, that an accord could be reached at transport ministers' next meeting on June 20 and 21 as a result of the bilateral meetings now being planned.

Ministers will also have the chance to discuss it at an informal Transport Council in the Bavarian town of Hof at the end of April.

Under compromise proposals put forward a few days ago by Mr Jurgen Warnke, the West German Transport Minister chairing the meeting, the number of quotas issued throughout the EC would be increased by 40 per cent in each of the next two years. Member states would decide by March 1990 what increase to impose in the following two years, but would not decide whether to scrap quotas entirely until October 1992.

That falls well short of Brussels' demands for an automatic end to quotas. West German officials said yesterday they were planning no changes. "We have just pushed it over to the Commission."

The West German proposals would need unanimous support to be voted into law because they differ from the Commission's ideas. The Brussels authorities' own plans for road haulage, which envisage a phased return to a legally guaranteed free market by 1992, only need a qualified majority.

Growth forecast to slow this year in the Netherlands

BY LAURA RAUN IN AMSTERDAM

ECONOMIC GROWTH in the Netherlands will slow this year to its lowest pace since the recession of the early 1980s but will bounce back in coming years, the Central Plan Bureau said yesterday in its latest economic forecast.

Gross national product growth will sink from 2.5 per cent in 1987 to 1.5 per cent this year because of a slowing down in the expansion of exports, consumer spending and business investment, according to the semi-official bureau. Between 1988 and 1992, however, GNP is forecast to rise at a faster rate of 2.1 per cent, fuelled by bigger increases in exports and business investment.

"All in all the conclusion is drawn that the economy has significantly improved in comparison with five years ago. But, on the other hand, something still must be done in areas such as the labour market and public sector before there can be talk of a full and balanced recovery of our economic structure," the bureau said.

The optimistic forecast notes that the Netherlands' economy is finally expanding as fast as the European Community average and should continue to do so after years of lagging behind. Stronger growth should enable the centre-right Government to more than reach its target of shrinking the budget deficit to 5.25 per cent of national income, driving it down to 4.7 per cent.

But the Plan Bureau also drafted a gloomier scenario in which growth would be 0.5 per cent lower if the dollar continues to fall and last year's share crash hurts the world economy more than it has so far.

For this year business investment will not grow at all while consumer spending will edge up only 1.5 per cent and exports by a modest 3.5 per cent. Between now and 1992 business investment growth will recover to 4.5 per cent while consumers will spend 2 per cent more and exports will rise by 5 per cent.

The number of jobless is forecast to fall slowly by 130,000 to 535,000 in 1992 from this year. But that is still above the 500,000 promised by the Christian Democrat-Liberal coalition at the outset of its second term.

Taxes and welfare premiums combined rose over the past two years despite the Government's pledge to the contrary, the bureau noted. On Monday, however, the cabinet announced plans to use the fiscal burden for companies and individuals by Fl9.95bn (£2.87bn).

As from July 1 corporate taxes will be pared to 40 per cent for the first Fl250,000 in profits and to 35 per cent for those above, from the current flat rate of 42 per cent.

Welfare premiums for child subsidies no longer will be paid by companies but by the Government. Personal income taxes will be trimmed across the board. The fiscal relief will be financed with savings from a recently abolished investment subsidy, fewer tax deductions and windfall tax revenues.

Delors woos West Germans on single internal market in EC

BY DAVID MARSH IN BONN

A STRONG bid to win whole-hearted West German support for the creation of a single internal market in the European Community by 1992 was launched yesterday by Mr Jacques Delors, the president of the European Commission.

Speaking at a colloquium in Bonn, Mr Delors, a former French Finance Minister, also came out in favour of "pragmatic steps" towards creating a joint European central bank which, he said, would have to be sufficiently independent to assure "economic growth with stability."

Mr Delors' speech, before an audience of around 1,500 representatives from West German industry, was a carefully prepared attempt to overcome scepticism in the Community's most powerful economy over the single market plan.

The Commission president did his best to assuage West German fears that on specific points – for instance on differing subsidy policies – the internal market would bring disadvantages for the country's industry.

Mr Delors also went out of his way to praise the contribution West German counter-inflation policies would make to further EC development. He drew particular applause when he departed from his prepared speech and underlined that he had been "guided" by West German stability-mindedness during his time as

Delors (left): trying hard to overcome scepticism. Kohl (right): unique chance for growth.

Finance Minister.

Mr Helmut Kohl, the West German Chancellor, speaking a day after Bonn set down a road block in Brussels in front of EC proposals to harmonise lorry traffic, told the gathering that the 1992 plan was a chance of bringing to Europe a "renaissance of the market economy."

He gave fulsome support to the principle of setting up a full internal market as providing "a unique chance" for growth.

A more down to earth tone was adopted by Mr Siegfried Mann, chief executive of the Confederation of German Industry (BDI). He said the EC badly needed new 'internal growth impetus. But he pointed out that the mass of necessary harmonisation went beyond liberalisation of goods trade, including also the lifting of restrictions on "growth oriented" sectors such as telecommunications, transport, financial services and public sector procurement.

In a reference to widespread opposition in the Federal Republic to the opening of protected sectors, Mr Mann also added a self-critical note. He declared that although West Germany gave the impression of being "the keeper of the holy grail of the market economy," it would welcome the import of ideas from abroad on deregulating the economy.

Hungarian dissidents arrested

HUNGARIAN POLICE launched a series of dawn raids in Budapest yesterday arresting four leading members of the country's opposition on subversion charges, Reuter reports from Budapest.

Mr Ferenc Koeszeg, an underground publisher said the police had also beaten opposition writer Miklos Haraszti when he was detained temporarily on Monday night.

Speaking by telephone from Budapest, Mr Koeszeg said plain-clothes and uniformed police had arrested the four just hours before a planned opposition march through the capital to call for freedom, democracy and national independence.

The four are samizdat (underground) publisher Gabor Demszky, dissident Tamas Molnar, sociologist Ottilia Solt and Miklos Haraszti, who had been released from an hour's detention only the night before.

The first raid came Monday night when about four police arrived at Mr Haraszti's home. "Haraszti resisted going with them, saying they did not have any arrest warrant," Mr Koeszeg said. "Then he was handcuffed and taken to the police car where he was beaten."

Police had warrants when they made Tuesday's arrests, saying that the four were suspected of subversion, Mr Koeszeg said.

Gorbachev talks go well

A SENIOR Soviet official said yesterday that Mr Mikhail Gorbachev was "very satisfied" with his talks with Yugoslav Communist leaders and suggested that ties between the two parties would become closer, AP reports from Belgrade.

Mr Gorbachev smiled broadly as he emerged from two hours of talks with Mr Bosko Krunic, the Yugoslav Communist party leader, at which the two men adopted a new resolution on national ties.

Mr Vadim Medvedev, the Soviet Communist official who oversees Moscow's relations with East European parties, said the talks went so well that "we want to meet again to discuss questions which, in the past, were somehow left aside." He gave no details, but suggested cautiously that the Kremlin was looking at Yugoslavia's system of rotating top party and government jobs in an overall review of Communist party practice prior to a national party conference in Moscow this summer.

Uzbek officials in bribe scandal commit suicide

THREE FORMER senior officials in Soviet Uzbekistan accused of bribe-taking in a widespread corruption scandal have committed suicide, the newspaper Komsomolskaya Pravda said yesterday, Reuter reports from Moscow.

In a report on a five-year police investigation, the newspaper said four former top Communist party secretaries in the Central Asian republic, its ex-prime minister and a vice-president had all been arrested and were awaiting trial.

The investigation, a round-the-clock operation by a team of more than 100 police and legal experts, was launched just before the death in 1983 of then Uzbek party chief, Mr Sharaf Rashidov.

Mr Rashidov, closely associated with the former Soviet leader, Mr Leonid Brezhnev, was for many years a non-voting member of the politburo. But he has been posthumously stripped of all honours, including many awards he arranged for himself, and expelled from the party. Press reports have suggested ha was the mastermind of a network of official corruption.

Franco-German economic talks due on Monday

THE FIRST meeting of a new Franco-German economic and financial council will take place on March 21 in Bonn, the West German Finance Ministry said yesterday, Reuter reports from Bonn.

The talks will be attended by Mr Edouard Balladur, the French Finance Minister, Mr Jacques de Larosiere, the Bank of France President, Mr Gerhard Stoltenberg, the West German Finance Minister, Mr Martin Bangemann, the West German Economics Minister, and the Bundesbank president, Mr Karl Otto Poehl.

The talks will centre on the economic situation and outlook for the two countries, budget developments in 1988 and 1989 and currency co-operation, the ministry statement said.

Under an agreement signed last January in Paris, the council will meet four times a year, with West Germany and France taking turns in hosting the meetings aimed at concerting their economic policies.

Anders Aaslund argues that a Moscow reform measure is not transforming the economy as hoped

Disappointing results from Soviet enterprise law

THE SOVIET Law on State Enterprises, which came into force at the beginning of the year, was presented as a central plank in Mr Mikhail Gorbachev's reform programme. But already, analysts in Moscow are saying it has changed virtually nothing.

The law contains rules for most areas of the Soviet economy, but much of it is declaratory, unclear and contradictory. A large number of rules issued subsequently during the second half of 1987 helped to clarify it.

It says enterprises should work out their own plans independently. At the same time, however, they still have to fulfil state orders issued by the Planning Commission or branch ministries. In June 1987, Mr Gorbachev's leading economic adviser, the academician Mr Abel Aganbegyan said state orders should account for only 50-60 per cent of industrial production. In fact, they cover approximately 90 per cent of industrial production, and many enterprises find that state orders amount to 100 per cent of their production capacity – or more.

State orders were supposed to become a kind of compulsory contract between producer and purchaser. In practice, no customer is named in a state order and orders are issued for products that no one wants to buy and products that are supposed to be used by the producing enterprise itself. Shrewd ministerial bureaucrats have preserved the old command system under the new name of state orders.

As the nature of planning has not changed, the system of allocating materials cannot be altered. Last year, a limited experiment with the extension of wholesale trade was launched. As enterprises remained unresponsive to costs, they bought and hoarded as much as possible. The immediate official response was to reintroduce strict rationing.

But wholesale trade can only expand when enterprises face budgetary constraints. Today, as the financial expert Mr Nikolai Petrakov has written, money is one of the few commodities that is rarely in short supply in enterprises. As long as this remains the case, any relaxation of rationing is bound to create even more chaos than usual in the centralised supply system.

The Law on State Enterprises provides for self-financing, but only among enterprises accounting for 60 per cent of industrial production.

The Ministry of Finance has drawn up rules for the definition of profits and their distribution that are essentially in line with the enterprise law. The Soviet concept of profit has drawn closer to the western notion as more costs are incorporated in tha accounting, and there are

> **Many enterprises find that state orders still account for their entire production capacity, limiting factory managers' ability to plan their output independently**

attempts to raise the prices of inputs to encourage thrift.

However, capital charges and profit taxes are still set by the branch ministries and they stick to the principle that the successful should pay more and the weak should pay nothing. As a result, actual capital charges vary from 0 to 12 per cent of working capital and profit taxes from 0 to 85 per cent. These rates are fixed individually for each enterprise, so subsidies are unlikely to decrease.

The price system will remain unchanged until 1990, when new wholesale prices will be inntroduced in industry. A year later, agricultural procurement prices and consumer prices are supposed to change, but the principles have yet to be agreed. Since prices of raw materials are far too low by any standard, many producers of raw materials, such as the coal industry are chronic loss-makers. Prices of manufactured goods, on the other hand, are inflated. Consequently, profits say little about the real performance of an enterprise.

Thirteen per cent of Soviet enterprises are loss-makers. Mr Aganbegyan believes that half of them are hit by unrealistically low prices. As long as prices remain distorted, bankruptcy may appear totally unjustified. Two enterprises have already gone bankrupt but the number is likely to remain low.

Gosplan's new rules for determining wages are barely distinguishable from the old ones. Enterprises can relate their wages to net production or to gross production in value or physical volume as under Stalin. The economist Mr Pavel Bunich remarked recently that wages bear little relation to output or quality. Bonuses depend more on profits but their impact will barely increase.

Curiously, one of the most noticeable changes is the introduction of elections in enterprises. Officials claim that 30,000 or more enterprise directors and senior managers were elected last year. However, nominations are controlled by the regional party organisation, so the effect of these elections may be no more than a shift of power to the regional party organisations from the branch ministries.

The most obvious reason for the absence of changes is bureaucratic resistance. Last October, when Mr Nikolai Talyzin presented the plan for 1988, he sounded as if nothing hed changed in the planning system and issued exact "tasks" for various industries in the old manner.

The Soviet press has been actively attacking the numerous branch ministries for ignoring the new rules. But the industrial ministries are supported by enterprise directors who depend on their goodwill to secure scarce inputs.

The next point on the reform agenda is to reduce this resistance through ruthless cuts in senior staff. Gosplan's staff is to be cut by one third, and that of the many branch ministries by half – cuts involving an estimated 100,000 job losses in Moscow.

The continuing political strife over reform, highlighted by Mr Talyzin's recent dismissal as top state planning official, is unlikely to promote economic growth.

The official growth rate is certainly inflated, but even last year's figure was, at a mere 2.3 per cent, almost two percentage points below the plan target. Senior Soviet economists accept this poor economic performance as an inevitable short term result of the reform process, and they do not expect any recovery until 1990.

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OVERSEAS NEWS

Pakistan refuses to budge on Afghanistan

By Robin Pauley, Asia Editor, in Geneva

PAKISTAN yesterday maintained its intransigent stance on the deadlocked talks aimed at ending the Soviet occupation of Afghanistan and took the unusual step of telling the Soviet Union immediately.

Mr Mohammad Khan Junejo, the Prime Minister, told the Soviet Ambassador of the decision. And later Mr Diego Cordovez, the UN mediator at the Geneva talks, was informed by Mr Zain Noorani, the deputy Foreign Minister leading the Pakistan delegation.

As agreement failed to materialise all sides emphasised that a withdrawal of Soviet troops starting on May 15 was still possible. Mr Vadim Loginov, deputy Soviet Foreign Minister, said in Belgrade that there was no Soviet deadline for concluding the Geneva agreement. However, in Moscow Mr Gennady Gerasimov, the Foreign Ministry spokesman, warned that failure to meet yesterday's dealine would delay the start of the withdrawal.

"We are facing very difficult problems but the fact that we are still here negotiating seriously shows everyone is looking for a solid, not flimsy, agreement," said Mr Cordovez.

Mr Nikolai Kozyrev, the Soviet ambassador-at-large responsible for Asian affairs, met Mr Cordovez for an hour at Geneva's Palais des Nations yesterday morning, following a similar meeting on Monday. He is understood to be maintaining a firm stance against the Pakistan demand thet an interim government in Kabul should be linked to the Geneva withdrawal agreements. Mr Kosyrev met Mr Noorani on Saturday to deliver a message to the same effect from Mr Eduard Shevardnadze, the Soviet Foreign Minister, who meets Mr George Shultz, US Secretary of State, next Tuesday in Washington.

Dalai Lama accused

Wu Xueqian, China's Foreign Minister, yesterday accused foreign news agencies of distortion and exaggeration of disturbances in Tibet, and sharply criticised the Dalai Llama for "frantically attacking" China during his 1987 visit to the US, Colina MacDougall writes.

Simon Clarke in Dakar reports on the causes and aftermath of a state of emergency imposed after last month's presidential election

Senegal wrestles to keep its democratic reputation

AN IMPOSING stone column rises above the city from a wide and busy boulevard in Dakar, the capital of Senegal. Built to commemorate independence from France in 1960, it is normally a place of calm from passing traffic, with green lawns and shaded benches.

It is also the headquarters of the opposition Senegalese Democratic Party, where crowds of chanting demonstrators gathered the morning after national presidential and parliamentary elections on February 28.

Within minutes, the tranquility vanished. The boom of concussion grenades echoed around the monument. Clouds of tear gas rose from ths crowds as armoured vehicles followed charging riot police up the avenue. Fences were broken down and paving stones pulled up to be used as weapons, beginning a day of the most serious violence seen in the democratic and normally stable West African state for twenty years.

Senegal's prized reputation for multi-party democracy in a continent more familiar with dictatorial rule, came under test as the ferocity of the violence took both government and opposition by surprise.

Opposition leaders, including Mr Abdoulaye Wade of the Senegalese Democratic Party, President Abdou Diouf's main challenger in the election, were arrested as the president declared a state of emergency.

Years of in-fighting between the Socialist Party government and the leading opposition SDP have produced a state of political apathy in Senegal. The post-election violence demonstrated how far political leaders have lost touch with the population, especially the young.

More than half Senegalese are under the legal voting age of 21 and only 2m can vote from a total population of more than 6½m. Grass roots support for the parties is declining, with attendance and free election rallies limited to the small numbers of mainly middle aged supporters. With 17 official political parties in existence, opposition is divided to the point where no one party can pose a real electable threat to the Government.

After a relatively quiet polling day the Government was suddenly confronted by three united strands of opposition. University students, schoolchildren and low paid manual workers combined on a common platform.

Their complaints focused on the economic and political effects of nine years of austerity under a World Bank/IMF recovery programme designed to rebuild Senegal's struggling economy.

Mr Abdou Diouf inherited a worsening economic situation when he took office from Mr Leopold Senghor, the retiring president, in 1981.

During the 1970s the situation began to change. The oil price rises hit Senegal hard, sending domestic energy prices up. France began to withdraw trade agreements, leaving the Senegalese economy open to the effects of rising import prices, falling agricultural export prices and higher rates of interest on debt repayments.

State control of the economy came under strain as costs mounted. The groundnut industry, the mainstay of Senegal's export earnings, came close to collapse as drought intensified the problems of an outsized and corrupt bureaucracy.

Diouf: Facing more problems

As economic circumstances changed, Mr Diouf had to deal with the consequnces. The World Bank Structural Readjustment Programme, introduced in 1979, aims to establish self-sustaining growth by reducing state involvement in the economy and encouraging private sector investment.

For nine years this has entailed reducing the state sector, withdrawing subsidies for agriculture and industry, and imposing strict limits on public expenditure to the detriment of public services. In consequence, unemployment has increased, the standard of living dropped and opposition grown against the falling standards of health care and eductational provision.

At a press conference last week Mr Diouf reaffirmed his commitment to the recovery programme, saying "policies such as structural readjustment are bound to produce discontent, but for a conscientious government there is no alternative. If we do not have a recovery programme we will be committing suicide."

This declaration raises the question of Mr Diouf's ability to control opposition to the programme in the future. His position as president is assured. There is only a question mark over the police force, reconstituted after being dismissed following last year's police strikes.

France maintains a strong military presence in Senegal and political relations between the two countries are good. Prime Minister Jacques Chirac sent a personal message of congratulations to Mr Diouf last week after election results announced Mr Diouf's victory with 73 per cent of the vote.

Mr Chirac also supported Mr Diouf's actions against the rioters, saying Senegal could rely on unconditional French support in all areas, a statement thought to confirm the availability of French forces to the president should he require them.

The events which followed the election indicate the difficulty of sustaining reforms, say party officials. Mr Diouf must revive his party and increase communications with the young. The message that there is no alternative to the recovery programme must be made clear and strong, say officials, if the president is to rebuild confidence in his Government and ensure there is no repetition of last week's violent scenes.

Balance of payments cheer for Australia

By Chris Sherwell in Sydney

NEW BALANCE of payments figures indicate Australia may do better than its projected current account deficit this year, Mr Paul Keating, the federal Treasurer, said yesterday.

Figures released in Canberra showed a monthly deficit in February of A$737m (£290), in line with forecasts, and brought the cumulative deficit for the first eight months of the 1987-88 financial year to A$7.56bn.

This is a 21 per cent improvement on the A$9.57bn figure recorded for the same period in the previous year, and suggests that the annual deficit will finish lower than the A$11.4bn forecast in last September's budget. The 1986-87 figure was a record A$13.4bn.

The main factor behind the balance of payments improvement is e turn-round in Australia's terms of trade. These have shown four consecutive quarterly increases in the period to December, reversing a decline seen since 1983.

As a result the deficit on merchandise trade in the first eight months of the current financial year has been slashed from just over A$2bn to just A$95m.

There is, however, a danger that the narrowing of the balance of payments deficit could easily be jeopardised by s downturn in commodity prices or by e too-sharp increase in domestic growth.

Renewed pleas for clemency as Sharpeville Six execution nears

BY MICHAEL HOLMAN, AFRICA EDITOR

WORLDWIDE protests and renewed pleas for clemency gathered force yesterday in the wake of the South African authorities' announcement that six blacks convicted of complicity in the killing of a Sharpeville township councillor would be executed on Friday.

In London Mrs Lynda Chalker, the UK Foreign Office Minister, said that Britain had already appealed for clemency for the six, and would continue efforts to get the death sentence commuted. "I will see how much possibly can be done in the next two days, because that is absoutely vital", she told BBC radio.

Mr Prakesh Diar, the lawyer for the group, said in Johannesburg yesterday that his clients believed that only intervention by President Reagan, Mrs Margaret Thatcher and the West German Chancellor, Mr Helmut Kohl, could save them.

A spokesman for the South African Ministry of Justice said that President Botha had rejected the last legal appeal, but all petititions would be passed on to him for consideration. The executions are due to take place at Pretoria prison at dawn on Friday.

The six – five men and one woman – were convicted of complicity in the murder of a local government councillor in 1984. The group were accused of being members of a crowd which hacked and burnt to death Mr Jacob Dlamini. An Appeals Court judge ruled that they were guilty because they had common purpose with the killers.

Mrs Chalker acknowledged that President Botha may be reluncant to grant clemency because he might see himself as under pressure from South Africa's increasingly powerful right wing. But she went on to warn that the executions could lead to "more violence, and only makes a very difficult situation much worse."

Next Monday is the anniversary of the 1960 Sharpeville massacre, when 69 blacks were shot dead by police.

Soviet Union abandons UN Gulf war initiative

By Richard Johns

THE Soviet Union has dropped its initiative to obtain a UN Security Council resolution calling for an end to the missile, air and artillery attacks on centres of civilian population by Iraq and Iran in the Gulf conflict.

The three Western permanent members of the council – the US, Britain and France – are understood to have blocked the move at a session on Monday night.

They insisted that the main priority should be implementation of Resolution 598 adopted last July which called for a ceasefire and continued consultations on agreement on an arms embargo against Iran if it continues its refusal to accept the resolution in its entirety.

Western diplomats say, however, the prospects for a resolution on sanctions against Iran have been badly affected by the continuing "war of the cities" which, following a short-lived unofficial truce at the weekend, has been resumed at a new pitch of emotional frenzy.

Sir Geoffrey Howe, the British Foreign Secretary, is understood to have conveyed as much to Mr Tariq Aziz, his Iraqi counterpart, when they met yesterday in London.

Iraq yesterday morning fired four missiles at Tehran. It brought the total fired since missile exchanges started again on Sunday to 13. Iran responded with just two - prompting speculation that it is running short of missiles.

Iraq has blamed Iran for the rupture of the truce saying that it had breached it by shelling the Suleymaniyah area in north-east Iraq.

Seoul clamps down on banks

By Maggie Ford in Seoul

THE South Korean central bank is to force 11 foreign banks to unwind option contracts worth more than $2bn (£1.1bn) which it claims have been used to make covert loans to domestic businesses.

The options contracts, agreed last month, are believed to have contributed at least Won500bn (£357m) to the money supply.

The bank has restricted loans to South Korean businesses this year because of fears of inflation, caused mainly by inflows from the increasing trade surplus.

The option contracts, originally designed to help companies hedge against currency fluctuations, have been used to provide disguised loans, the bank believes. None of the banks involved has yet commented.

Greenspan backs UK policy on exchange rates

BY ANTHONY HARRIS IN WASHINGTON

MR ALAN GREENSPAN, the Chairman of the US Federal Reserve Board, said yesterday that Britain "did the correct thing" in allowing sterling to rise when recent market pressure built up.

He was rebutting charges from members of Congress that the British action undermined the Group of Seven accord on currency stability. He said that while the aim of the accord was to reduce the pressures which made markets unstable, market pressure must be accommodated when it "overwhelms the situation temporarily."

He added that efforts to lock in a fixed bilateral exchange rate with one other currency would risk creating imbalances in the entire currency system.

He refused, however, to answer questions from the Congressional Joint Economic Committee on whether his remarks implied that the Fed would refrain from intervention should market pressure become focused on the dollar.

Mr Greenspan reiterated his recent optimistic forecasts for the US economy, saying that the chances were good for a further year of uninterrupted economic expansion, "though the situation is not without risks."

He warned that the market crash of last October should be read as a warning against excessive US reliance on foreign capital to finance its expansion, but he added that willing foreign investment in the US, which some members of Congress regard as a threat, was welcome, and would be "a plus" in the long run.

In a simultaneous Budget hearing before the House Appropriations Committee, Senator Whitten of Mississippi, mounted a long assault on the Administration's economic record, and accused them of selling US assets to finance "current waste."

US reliance on foreign capital reached e record $160.7bn in 1987, compared with $141.35bn in 1986, according to the fourth quarter current account figures announced yesterday.

The deficit for the fourth quarter, et $39.99bn, was slightly down from the revised $43.38bn for the third quarter.

There was little change in the deficit on merchandise trade, with both exports and imports rising by just under $4bn compared with the previous quarter, but the services account recovered sharply to e surplus of $5.59bn, from a deficit of $152m in the previous quarter. Government overseas net payments rose slightly.

The measured capital inflow fell to $58.89bn, from $87.29bn in the previous quarter, covering less than half the reported current account deficit. The balance, after errors and omissions, was financed by foreign central bank support for the dollar.

Argentine teachers strike over cash and pay scales

BY TIM COONE IN BUENOS AIRES

ARGENTINA'S teachers, the lowest paid employees in the public sector, went on strike this week throughout the country for wage increases of up to 175 per cent on their existing basic rate, preventing the start of classes at the beginning of the school year.

The teacher's union CTERA is demanding a unified pay scale at a national level, and a basic minimum level of Aus770 ($125) per month.

The Government made an offer of e nationwide minimum Aus500 last week, an average increase of 17 per cent, but this was rejected by the teachers, who then made the call for an all-out strike. Universities may also be affected by next week if agreement is not reached before the new term begins.

Provincial governments are responsible for the payment of teachers' salaries and the present minimum ranges from a mere Aus280 in the poorest provinces to Aus618 in the wealthiest.

Roderick Oram reports on the rising tide of confusion caused by ill-conceived reforms

Rules labyrinth leaves US taxpayers gasping

FACED WITH a tax question, a US citizen might as well flip a coin. Chances are, advice from the Internal Revenue Service will be barely more accurate.

So great is the confusion generated by US tax reform, IRS advisors are giving the wrong answers to 39 per cent of telephone calls from confused members of the public, according to e recent study by the General Accounting Office, watchdog agency of Congress.

Not so, retorted the IRS, we're wrong only 25 per cent of the time. Whatever the exact figure, the service is handing out bad advice at double the rate it was a year ago. A palpable sense of anger, panic and frustration is rising across the country as the April 15 tax filing deadline looms.

"Very simply, taxpayers, practitioners and the IRS are having trouble coping with the magnitude and velocity of tax law changes," Mr Lawrence Gibbs, the IRS commissioner, told Congress recently.

The trouble started in 1986 when Congress passed a sweeping tax reform law, one of the crowning domestic policy achievements of the Reagan Administration. Politicians failed, however, to write a follow-up package of technical corrections to tidy up errors in the original legislation.

They made matters worse by passing hundreds of new changes late last December. The IRS is struggling to catch up, having already issued since reform started 253 new rules and regulations, four dozen new forms and changes in 162 others.

"If you've mustered the courage to look at this year's 'simplified' 1040 tax (form) package, you are probably ready to seek professional help – either from a tax preparer or a mental health therapist," Money, a personal finance magazine published by Time Inc, suggested in its current edition.

In fact, nearly half the 100m personal tax returns filed in the US each year are prepared by professionals such as certified public accountants, independent "agents" tested by the IRS, and specialist firms such as H and R Block of Kansas City which employs 40,000 tax preparers nationwide.

Money asked 50 of these professionals to prepare the tax forms

A palpable sense of anger, panic and frustration is rising across the country as the tax filing date looms

of the Johnsons. The hypothetical family's affairs were relatively complex but not unusual for those in the upper middle class with $100,000 of income, three children, two homes and an array of conservative investments. A second mortgage on the second home, which was rented part time, was the trickiest element.

The professionals could have hardly disagreed more on the Johnsons' federal tax bill with bottom lines ranging from $7,202 to $11,881 for an average of $9,105. (Residents of other countries should take heart that the usual US tax rate is much higher. The Johnsons had astutely used a large number of deductions, such as interest payments on multiple mortgages. In addition, their overall bill would have been greater if state and local taxes had been included.)

Fees ranged even more widely from $2,500 charged by a member of the Los Angeles office of Deloitte Haskins & Sells, the international accountancy company, to $187 billed by Mr Jim Keeley, a Michigan district manager for H and R Block. Good advice came cheap. He calculated a tax bill close to the average and made no mistakes in areas covered by explicit rules.

Thirteen of the 50 professionals made simple arithmetic mistakes or outright blunders in areas where IRS rules are clearly spelt out. Professionals – and private individuals brave or foolish enough to tackle their own tax returns – are turning more to personal computer software programmes to help them crunch the numbers and wrestle with the IRS's new rules.

But the late changes in regulations are gravely disrupting software writers. For its part, the IRS has pledged to try harder and has increased its roster of telephone advisors by 1,000 to 4,500. In total, the advisors will receive some 22m calls this year.

Given the unprecedented fog this tax season, a lot of tax payers are asking how to apply for an extension to the April 15 filing deadline. There are several ways but perhaps the pleasantest is to be out of the country on the day. An IRS advisor suggested lunch in Tijuana, Mexico or Montreal, Canada would suffice. But before making the reservations, it's probably best to flip a coin.

Uruguayan opposition leader dies

MR Wilson Ferreira Aldunate, popular leader of the National Party, Uruguay's largest opposition group, died yesterday at the age of 69 a long illness, AP reports from Montevideo.

Hundreds of mourners silently congregated outside his home in the seaside suburb of Pocitos to pay respects to Mr Ferreira Aldunate.

Mr Ferreira Aldunate, who had been in ill health since July, lived in exile for 11 years after Uruguay's military staged a coup in 1973. He had been a presidential candidate in 1971 but narrowly lost in what he claimed was a fraudulent election.

An outspoken critic of the right-wing military government, he was jailed upon his return to Uruguay in 1984. The military government refused to allow him to run for president in the 1985 gensral elections. He was released five days after the elections.

He was a member of Congress for 34 years and was agriculture minister from 1963-67.

US accuses Managua of largest ever offensive against Contras

THE US yesterday accused Nicaragua of mounting its largest military offensive ever and said this could be a serious blow to US-backed Contra rebels, Reuter reports from Washington.

Mr Charles Redman, the State Department spokesman, said the buildup by the leftist Sandinista government was at odds with Managua'a expressed willingness to negotiate a ceasefire in Nicaragua's seven-year-old civil war.

Mr Redman said that "over the last two weeks, it has become apparent thet the Sandinista army has been preparing for a major offensive against the Nicaraguan resistance."

"Based on what we now know, this would appear to be the largest offensive we have seen the *Sandinistas undertake*," he said. The comments by Mr Redman, to be followed later by a more extensive background briefing by US intelligence officials, appeared to be part of a renewed campaign by the Reagan Administration to persuade Congress to approve new aid for the Contras.

US aid stopped on February 29 following the failure by Congress to agree on a new package.

Mr Redman said large contingents of Sandinista forces were being concentrated in the Bocay region of Nicaragua, including 12 combat battalions with an estimated 6,000 troops and at least 10 Soviet MI-17 helicopters.

The Sandinistas have established a new command base at Bonanza and, even more significantly, have diverted scarce petrol supplies to fuel helicopter sorties, he said.

"This effort is supported by Soviet aid to the Sandinistas which continues unabated" and which in January and February included the delivery of over 3,000 tonnes of military equipment to the Nicaraguan Government, Mr Redman said.

Meanwhile, since the US aid cutoff, Contra forces have begun to fall back to border areas, he said.

"The resistance position is difficult. Its forces must defend what is left of their supplies, which means they cannot use normal guerrilla tactics to disperse and escape superior Sandinista firepower and manpower being brought to bear on them," he said.

● EL SALVADOR'S leftwing guerrillas will enforce a nationwide traffic ban to disrupt next Sunday's legislative elections, a top rebel commander said yesterday, Reuter reports from San Salvador.

In a message broadcast on the rebels' clandestine Radio Venceremos, Mr Joaquin Villalobos said: "The measure is part of the war. *Elections should* not be considered a solution to the national crisis."

He warned that guerrilla units would attack any vehicles on the nation's roads starting on Friday.

More than 1.6m of El Salvador's 5.5m people are registerd to vote in the elections for 60 National Assembly deputies and 262 mayors.

The Farabundo Marti National Liberation Front (FMLN) rebels consider the elections a farce designed to bolster the image of the US-backed government. The guerrillas have been fighting the government for eight years.

Earlier the FMLN vowed to prevent voting in areas under its control, mainly the remote mountain provinces of Chalatenango and Morazan and coastal Usulutan. The decision to expand the boycott sets the scene for a showdown with the Government, which is deploying troops throughout the country.

Honda car safety under scrutiny

A FEDERAL AGENCY yesterday said it was investigating whether 62,500 1986-88 Honda Acura Legends with automatic transmissions have a safety defect that makes them *susceptible* to sudden acceleration, Reuter reports from Washington.

National Highway Traffic Safety Administration (NHTSA) said it had opened a preliminary probe of the cars in early March *in response* to a *petition* filed in November by the Centre for Auto Safety, a private non-profit car industry watchdog group.

The centre asked the government to recall the cars, alleging they had a tendency to race out of control when shifted into drive or reverse from park.

Hurd said the agency investigation would cover the Austin Rover Sterling as well as the Legend.

The Sterling is assembled by Austin Rover in the UK but its drive train and engine are made by Honda in Japan and are mechanically identical to the Acura's.

About 14,000 Sterlings were made for the US market last year.

Brazil GDP growth falls short of forecast

By Ivo Dawnay in Rio de Janeiro

BRAZIL'S gross domestic product grew by 2.9 per cent in 1987, well below the 3.6 per cent predicted last November, according to official figures published this week.

The outcome owed much to a startling 14 per cent surge in farm output, which helped to relieve an equally sharp slump in industrial growth, down to 0.2 per cent.

Total GDP equal to $313bn allowed n tiny increase in per capita income to $2,212. Nevertheless, the figures will alarm government officials already concerned with falling industrial output.

Brazil needs to nchieve annual GDP growth of at least 5 per cent merely to absorb an estimated 1.5m new workers looking for *employment* each year.

Average growth retes of over 7 per cent since the Second World War have meant that the country kept up with its birthrate until the recession provoked by the oil and debt crises at the beginning of this decade.

Officials of the Government's Brazilian Institute for Geography nnd Statistics (IBGE) presented a gloomy outlook for the current year. The huge grains harvest of last year is expected to be repeated in 1988, giving growth in the sector of up to 4 per cent.

But Ms Luiza La Croix, head of the IBGE's indnstrial department, hes concluded *that latest figures from industry* suggest there can be little increase in consumer sales without an improbable improvement in eernings rates.

High interest rates, uncertainty over the economy and low investment, mean that the capital goods sector also looks set for a stormy year.

The one bright spot on the horizon remains export sales, particularly of manufactures. Official government figures for February's trade *balance* are due today but President Jose Sarney has already announced that they exceed $900m – nearing a record for the holiday month.

GM chief fears Japanese car influx

BY KEVIN DONE, MOTOR INDUSTRY CORRESPONDENT

JAPAN's share of European car sales could rise from 11 to as high as 30 per cent if quotas and voluntary restraints were removed, according to Mr Roger Smith, chairman of General Motors of the US, the world's largest motor group.

He believes the shift would threaten perhaps 10 major assembly plants and as many as 300,000 jobs.

He told the Swiss-American Chamber of Commerce in Zurich that import restrictions in countries like the UK, France, Spain and Italy – just over half the West European car market – had kept the Japanese market share artificially low.

In European countries without established import restrictions but where there was some level of voluntary restraint, such as West Germany, the Benelux countries and Scandinavia, the Japanese market share ranged from 15 to 40 per cent.

The GM chairman said that that it could not be assumed that the quotas and voluntary restraints were a desirable, permanent or even a long-term solution.

Protectionist and quota-setting measures would prove increasingly ineffective. As in North America where Japanese car makers already hold 30 per cent of the market they had begun to get around trade barriers by building local plants.

Referring to the possibility of common curbs on Japanese car imports as the European Community moves towards a single market by 1992, Mr Smith said: "I see the Japanese seeking to get more involved in Europe before the door is closed to them."

Steps already taken by Japanese motor groups into West Europe include:

● Nissan – car plant in the UK and majority shareholding in Motor Iberica four-wheel drive and light commercial vehicles production in Spain.

● Honda – collaboration with Austin Rover in the UK and engine plant under construction in the UK.

● Toyota – agreement with Volkswagen to produce light commercial vehicles in West Germany, plus 27 per cent shareholding in commercial vehicle and bus assembly plant in Portugal.

● Mitsubishi – agreement with Daimler-Benz to produce vans in Spain.

● Suzuki – an 18 per cent stake in Land Rover Santana in Spain to produce small Suzuki four wheel drive sports utility vehicles.

● Isuzu – joint venture with GM in the UK (Isuzu 40 per cent, GM 60 per cent) to produce vans based on Isuzu and Suzuki designs.

These developments were a two-edged sword, said Mr Smith. "They do create jobs in the host country, just as they have in North America, but in Europe – at least so far – the high value-added items are still made in Japan."

Mr Smith said that Japan's protection of its home markets was a "major obstacle that must still be overcome", if the problems of imbalance in motor trade between Japan and Europe were to be solved.

In 1987 Europeans bought about 1.4m Japanese cars, while only 90,000 European-built cars were purchased in Japan.

Fall in dollar brings leap in US wine exports

By Louise Kehoe in San Francisco

US wine exports rose almost 75 per cent to $60m last year, buoyed by the dollar's sharp fall against other currencies, the Wine Institute, a San Francisco-based vintners association reported.

They said Californian wines accounted for about 95 per cent of US wine exports, with E&J Gallo, the largest California winery, leading the pack.

For the first time, Japan overtook Canada to become the biggest export market for American wines, with sales in Japan rising to $14m, up from $7.3m in the previous year.

The Wine Institute attributed much of the increase to the falling dollar which made American wine cheaper abroad. Increased promotion by US wineries was also begining to pay off, the trade group said.

According to wine industry analysts, American wineries have also benefitted from a new "chic" image in Pacific Rim countries. "There is a growing awareness of California wines, particularly among Japanese yuppies," said wine consultant Mr Jon Fredrikson. He sees potential for long term growth in the region for American wine producers.

South Korean businessmen and women are also developing a taste for American wines, California vintners say. Sales to Korea rose 38 per cent last year.

Japan tries to boost Italian ties

BY JOHN WYLES IN ROME

A 43-strong team of Japanese bankers, industrialists and civil servants yesterday visited Honda's motor cycle assembly plant in the Abruzzo in an attempt to discover why Italo-Japanese commercial relations are so minute.

The delegation's week-long visit to Italy is also dedicated to establishing two-way trading and investment opportunities for Japanese and Italian companies.

Mr Yoh Kurosawa, Ueber president of the Industrial Bank of Japan, who is leading the Japanese Survey Mission on Industrial Environment, said the two countries' exports to each other amount to only 1 per cent of their foreign shipments.

Both sides know that protectionism is at least part of the answer. Japan's car sales in Italy, for example, are limited to around 3,000 units a year under a bilateral agreement of the late 1950s prompted by a Japanese desire to protect its fledgling car industry.

This is the authorised version in Europe, but Mr Kurosawa said he knew of no such agreement, adding that Italy could sell more than 3,000 cars a year in Japan if its products were competitive.

Altogether, Italy has import restraints on 34 Japanese products, he added.

Italians have found it difficult to sell into Japan, in common with the rest of Europe. But Italian exports to Japan did nearly triple between 1981 and 1986.

So far, Italy has been virtually ignored by the Japanese who, Mr Kurosowa says, have built only 15 factories there, compared to 70 in the UK.

He thought the reason was that his fellow-countrymen were still influenced by Italy's 1970s image, "with strikes and terrorism." But he believed the reality had changed.

More tourists visit Australia

BY CHRIS SHERWELL IN SYDNEY

CONFIRMATION of the scale of Australia's tourist boom has come with figures released yesterday showing a 25 per cent increase in the number of overseas visitors during 1987.

The Bureau of Statistics said it had recorded a total of 1.78m arrivals of overseas visitors for short-term visits, up from 1.43m in 1986 and just over 1m in 1984.

The biggest increase was from Japan, with 215,600, a rise of 48 per cent. But the largest number, 427,300, came from neighbouring New Zealand. Arrivals from Britain were up 18 per cent to 198,900, and from the US 26 per cent to 309,000.

Significantly, the number of people coming to settle permanently in Australia also increased sharply. A total of 128,290 settler arrivals was recorded, up 24 per cent on 1986.

Of these, 39,400 were born in Europe, 15,300 in New Zealand and almost 38,000 in East and South-East Asia.

With a further large increase in tourist arrivals expected in 1988 because of Australia's bicentennial celebrations, the tourist industry has become one of the country's most rapidly growing industries. Tourism is growing faster in Australia than in other OECD countries.

The expansion is partly the result of a depreciation in Australia's dollar against the currencies of most developed countries, and particularly in relation to the Japanese yen.

But it is also the fruit of heavy promotion, reduced costs of air travel and people's fears of visiting more trouble-plagued parts of the world. Free publicity through the America's Cup yachting contest and commercial films such as Crocodile Dundee has also helped.

Despite the strains caused by such expansion, projections by tourism officials point to 2m visitors by 1989 if not sooner.

EC suggests permanent Lomé trade concessions

By David Buchan in Brussels

THE European Commission has proposed that Community trade concessions to 66 African, Caribbean and Pacific states should be made permanent, after the current five-year Lomé Convention ends in 1990.

The proposal was unveiled yesterday by Mr Lorenzo Natali, the Commission vice president in charge of development policy, as part of the Commission's suggested guidelines for the complex Lomé renegotiations due to start in September. Before that date the 12 EC governments will have to agree on a mandate for Commission negotiators.

To avoid some of the time-consuming renegotiation in future and to give the ACP states a greater sense of economic security, Mr Natali said the Commission had concluded that the general part of the Lomé accords should be made of indefinite duration, though open to revision at the request of either side. This would include the provisions whereby ACP goods enter the EC duty free, except for special deals on agricultural items competing with EC produce.

But the aid aspects of the Lomé convention should remain renewable every five years as at present, the Commissioner said. Under the current Lomé Three convention for 1986-90, ACP countries are due to get ECU7.4bn in grants and ECU1.1bn in subsidised loans. Mr Natali claimed the Community had been generous in past negotiations, and the forthcoming negotiations would prove no exception.

Contrary to the wishes of some EC member states, notably Spain, the Commission has come out against extending the Lomé arrangements to central America. Mr Natali said any such extension would dilute the impact of EC development policies. The Community was already engaged in an active political dialogue with the central American states. However, two countries – Haiti and the Dominican Republic – had specifically requested inclusion in Lomé, and their requests would be considered separately, the EC Commissioner said.

He appealed for other industrialised countries to take action in the current Uruguay round of the multilateral GATT trade talks to open their markets to ACP products in the way that the EC had done.

Airbus subsidies dispute heads for fresh turbulence

Talks between the US and the EC are unlikely to make progress, writes Peter Montagnon

ONE THING can be said with certainty about this Friday's meeting between US and European trade ministers in Konstanz, West Germany. It will not be the end of their long-running dispute over subsidies to the European Airbus.

The meeting, between Mr Clayton Yeutter, US Trade Representative and Mr Willy de Clercq, EC Trade Commissioner, as well as ministers from the four Airbus shareholder countries – Britain, France, Germany and Spain – will be the most high-powered gathering since a similar encounter in London last autumn.

Yet expectations on both sides of the Atlantic are that it will produce little more than an agreement to continue talking.

Recent twists to the Airbus story, including the formal go-ahead for co-operation talks between Airbus and the US airframe manufacturer McDonnell Douglas as well as the review now under way in Europe of the Airbus Industrie corporate structure, have done little to resolve the basic dispute, although some industry observers say they make the immediate prospect of sanctions being imposed by the US less likely.

UNFAIR

European officials say that some progress has been made in several months of talks between officials from the two sides, but not nearly enough to reconcile their fundamental difference with the Reagan administration.

Europe continues to insist on its right under the General Agreement on Tariffs and Trade to subsidise Airbus, while the US believes such subsidies constitute an unfair trading practice and should be withheld.

Despite the announcement earlier this month by European Airbus ministers that they had formally endorsed cooperation talks with McDonnell Douglas, the US is expected to pursue its tough line at the Konstanz meeting.

Even if they were successful, talks between the two manufacturers would do little to quell concern over Airbus subsidies at Boeing, the other US leading airframe company. Also, the issue of Airbus subsidies has become a strong point of principle for the Reagan Administration which could not now be seen to back down publicly.

Moreover, industry executives say the cooperation discussions, which have already continued off and on for several years, are likely to be long and difficult. Neither Airbus nor McDonnell Douglas has yet agreed to abandon its own product development plans for the sake of a joint venture, but that would be a prerequisite for any cooperation agreement.

Some argue, moreover, that it would be difficult for McDonnell Douglas to agree to any cooperation with Airbus until the trade dispute between the two countries is resolved at a political level. In that sense the talks between the two companies are far from pointing the way to a resolution of the basic dispute.

Nonetheless European officials now believe that the chance of US trade sanctions which at one stage last year threatened to plunge the two sides into a costly and damaging trade war has receded. Both sides are now acutely aware of the economic implications of a trade war.

A further factor, which is weighing with the US industry, is that the window for filing a formal complaint under US trade laws may have closed because of the looming US presidential elections. Such complaints take a long time to process. Were either Boeing or McDonnell Douglas to file a complaint now, it might still be up to the next US administration to decide whether trade sanctions should actually be imposed.

Answering questions in the European Parliament last week, Mr de Clercq said the main focus of discussions now were the conditions under which governments should be allowed to grant further support to existing and future large civil aircraft programmes, possible exemptions from agreed subsidy disciplines and the degree of transparency needed to ensure that such disciplines were respected.

Agreement on all these issues "will require further rounds of very difficult negotiations," he said. Friday's meeting might not yield a definitive solution, but should serve to provide "final guidance" to negotiators.

The US had so far refused to accept a European plea for a "dollar clause" permitting subsidies outside agreed disciplines to compensate Airbus for losses incurred because of the dramatic decline of the dollar in which international aircraft sales are priced, he said, but this did not mean that the negotiations were at a standstill. Nor was there no realistic chance of an ultimate agreement on the subsidies question.

Such an agreement could still be a long time coming, however. In the short run, prospects for Friday's meeting have been muddied by the imminence of the French presidential elections as well as the fact that the review of Airbus' corporate structure commissioned by its four shareholder governments in January is not yet complete.

This review may hold the key to one important aspect of the talks, namely transparency, since the result of a corporate restructuring could make it easier for third parties to gauge the real level of subsidisation.

Some US industry executives are inclined to see the careful marshalling of factors like this as part of a basic European strategy to play for time. The hope in Brussels, they believe, is that the impact of the lower dollar will eventually bite. US companies will find themselves in an increasingly strong market position and correspondingly less inclined to worry about competition from Airbus.

REALISTIC

Such a perception of the dispute seems an over-simplification, however. European officials deny they are just playing for time. They say they want a settlement because of the uncertainty facing their local industry. On the US side, there is little inclination to back down over an issue of principle just because the dollar happens at the moment to be weak.

Besides, the long campaign waged by Boeing and McDonnell Douglas against Airbus subsidies has not been without its results because public awareness of the cost of financial assistance has grown.

"For many years it was flatly denied in Europe that there were lessons to be learned. We now have a more realistic assessment of the Airbus problem," said one US executive.

Capel slides to £14m loss after share price crash

BY GORDON CRAMB

JAMES CAPEL, the large London stockbroker, slid into a £14m pre-tax loss last year as the October stock market collapse made a severe impact on its convertible bond operations.

The deficit was disclosed yesterday by Hongkong and Shanghai Banking Corporation, which took full control of Capel in 1986 before Big Bang. It excludes capital costs of some £6m, representing the interest charge on a subordinated loan through which Hongkong Bank funds Capel.

Although Capel has not previously made public its annual results, it had been widely regarded as among the City's most successful broking firms, through avoiding a large securities exposure on its own account.

Capel's loss exceeds, for example, the £11m deficit before tax which Barclays, the UK clearing bank, announced three weeks ago for Barclays de Zoete Wedd, its securities and investment banking arm. BZW is bigger than Capel in terms of capital, and makes markets in UK equities – where Capel is primarily an agency broker, acting as an intermediary matching clients' needs.

But in some other sectors such as gilts, Eurosterling and convertible Eurobonds, Capel itself makes markets. Mr Peter Quennen, its chief executive, said yesterday: "For convertibles we had chosen to run very large books, and that proved expensive post-October 19."

This London-based activity brought Capel "very much the largest part of the effects of the crash" on the firm, which had not been hurt as a result of its presence in Hong Kong.

Capel last year continued a vigorous expansion programme abroad, buying brokers in Paris, Amsterdam and Toronto, doubling its Tokyo staff to 100 and opening six offices in other overseas centres.

While Capel's loss is dwarfed by those at troubled institutions such as National Westminster Bank's County NatWest division – which was £116m in the red last year – it none the less came as a surprise.

The Hong Kong parent, showing little effect from the Capel setback, yesterday reported net profits for 1987 up 17.6 per cent to HK$3.59bn (£248m).

Hongkong Bank, Page 29

Kieran Cooke in Belfast watches the return of the IRA's dead

Glimpse of the future from a funeral cortege

AT TIMES Northern Ireland looks like something out of the Middle Ages. At other times it is a frightening glimpse of a possible future.

Early yesterday morning, from the middle of a 10-mile traffic jam following the funeral cortege bringing the three IRA members shot in Gibraltar home to burial in Belfast, the outside world looked very grim.

At the border are large concrete army fortifications with camouflage markings and peepholes. A soldier inside taps car numbers into a computer. By the time you have reached the next post he knows almost your full life history. The European barriers might be coming down in 1992, but between Northern Ireland and the Irish Republic, the frontier is being reinforced.

The cortege was held up at the border for more than an hour. There were arguments about whether or not the Irish tricolour should be allowed to be draped over the coffins. In the end the tricolours stayed, but with white sheets over them. The Royal Ulster Constabulary, their fortified Land Rovers looking more like Chieftain tanks, drove alongside the hearses.

In the border town of Newry, loyalists were out in the driving rain at 2am to wave Union flags and throw stones. Helicopters flew overhead, one with a blazing blue searchlight; in some border areas locals have won compensation to pay for double glazing, needed because of the constant sound of the whirring blades.

By 3am we finally approached Belfast. It had taken more than nine hours to come from Dublin airport. The RUC had closed the motorway into the city. Driving along the back road into the centre, an army patrol appeared, one soldier walking backwards up the street, pointing his gun. In the army he is known as "Tail End Charlie."

Old Belfast hands say it is all normal but, like the searches in the bustling and lively city centre, it is not. At 4am, as a piper played the three coffins down the back-to-back lined streets of West Belfast, the only thing that was normal was the rain.

Appeal for Pretoria to call off executions

By Tom Lynch

BRITAIN'S ambassador in Pretoria is to appeal to President Botha for mercy for the "Sharpeville Six," who are due to be executed on Friday, Mrs Margaret Thatcher, the Prime Minister, told the Commons yesterday.

However, during question time exchanges Mrs Thatcher rejected an opposition plea for her to make a direct personal appeal to Mr Botha to halt the executions, imposed on the six for being members of a crowd, some of whose members killed the deputy mayor of the black township of Sharpeville.

Mr Neil Kinnock, the Leader of the opposition Labour Party, asked Mrs Thatcher to make a personal appeal to the president for an indefinite stay of execution because the courts had recognised that the six had no "causal complicity" in the killing.

Mrs Thatcher said her staff had spoken to relatives of the six and she had spoken to Archbishop Tutu. It was not normal practice to intervene in such cases but, because of the "unusual circumstances" of the case, the ambassador was to express to Mr Botha her hope that he would exercise his prerogative of mercy.

Change at M&S points to top job

BY MAGGIE URRY

MARKS AND SPENCER, Britain's most profitable retailer, yesterday moved further to secure the succession to Lord Rayner, its chairman, with the appointment of Mr Richard ("Rick") Greenbury, chief operating officer, as chief executive officer.

Lord Rayner, 61, is at the same time giving up the title of chief executive, but is expected to stay with the company until his ambitions to build the business overseas at least begin to bear fruit.

The move is seen as making it even more likely that Mr Greenbury, who is 51, will eventually take over as chairman.

Like Lord Rayner, he is not a member of the Sieff family which was one of the founders of M and S.

Mr Greenbury has worked for M and S since leaving school, starting as a junior management trainee in 1953 at the age of 18.

Since then he has worked in almost every part of the business, spending nine years in the stores before moving to head office to train as a merchandiser. In his time he has borne responsibility for clothing, food, homewares, footwear, gifts, exports and services.

He has been a director since 1972 and was made chief operating officer, a new post carrying responsibility for the day-to-day running of the company, in 1986.

M and S is a keen promoter of internally grown talent and all its executive directors, barring Mr Keith Oates, the finance director, are long-serving M and S men.

Mr Greenbury also qualifies as an M and S man in that he keeps fairly aloof from the City of London and the media, rarely granting interviews. Neither he nor Lord Rayner were available for comment yesterday.

Yesterday's low-key announcement has come with M and S in the process of trying to buy Brooks Brothers, the up-market US menswear chain.

The change is unlikely to have a great impact in the immediate running of the business.

M and S said yesterday that Mr Greenbury would take on "slightly broader responsibilities" and that the change would "allow the chairman to take a more global view."

The company could not say whether another chief operating officer or managing director would be appointed.

UK loses appeal on Spycatcher

Financial Times Reporter

THE BRITISH Government yesterday lost its fight for damages from the Dominion newspaper in New Zealand for publishing extracts from the book Spycatcher, written by Mr Peter Wright, a former assistant Director in the UK Security Service.

The Court of Appeal in Auckland *dismissed* Britain's appeal, which sought damages and an account of profits.

The president of the Court of Appeal, Sir Robin Cooke, said the claim was defeated by two defences from the Wellington-based newspaper.

Strength of sterling fuels textile imports' rapid rise

BY ALICE RAWSTHORN

THE BRITISH textile and clothing industry had to contend with sharply rising imports from the Far East last year, reflecting the uncompetitive rate of sterling against Far Eastern currencies.

The value of textiles and clothing imports rose by 13 per cent to £6.5bn in 1987, according to figures released yesterday by the British Textile Confederation.

With the industry boosting its exports by 12 per cent to £3.5bn, the textile trade deficit rose to £2.9bn.

The rise in imports was fuelled by two factors. First, the decline of the US dollar – and of related Far Eastern currencies – made textiles and clothing from the Far East more competitive in the UK.

Second, the protectionist climate in the US, and the fact that the dollar's decline made trading with the US less profitable, prompted Far Eastern producers to divert imports originally intended for the US to Europe.

Despite the imports, the pace of consumer spending ensured that output from British manufacturers remained stable. There was a modest increase in textiles production, while clothing output was static.

The confederation expects continued growth this year, albeit at a slower pace. Expenditure on household textiles and carpets was also buoyant.

The industry's workforce was reduced by 12,000 to 493,000 in 1987, reflecting productivity improvements rather than a loss of capacity.

Trends in Textile and Clothing Trade 1987, published by the British Textile Confederation, 24 Buckingham Gate, London SW1E 6LB, £25.

Manufacturing output maintains growth path

BY RALPH ATKINS

THE STRONG PACE of British manufacturing output growth showed no sign of abating in January, according to official figures released yesterday which demonstrated tha buoyant aconomic background to the Budget.

The Central Statistical Office said that in the three months to January, manufacturing output was 1.1 per cent higher than in the previous three months and 6.5 per cent higher than the same period last year.

However, output in the energy industries fell – mainly because mild winter weather cut demand for electricity and gas. In tha three months to January, energy output was 0.9 per cent less than in the previous three months and 0.7 per cent below the same period a year before.

CSO statisticians believe the 6.5 per cent annual increase in manufacturing is near the underlying growth rate. It compares with annual rates of about 6% per cent in September and October but otherwise is higher than at any time since 1973.

Manufacturing output in January was 3 per cent higher than the previous peak in 1979, but still 2 per cent below its absolute peak in 1974. For all production industries, output was 4.4 per cent higher in the three months to January than in the same period a year before.

Taken with Monday's retail sales statistics, which showed an annual growth rate of about 7 per cent, yesterday's figures confirm the present underlying strength of the economy. However some UK analysts fear that growth is at an unsustainable rate and will increase upward pressure on prices and sucking in more imports while exports lag behind.

In the three months to January, manufacturing growth was highest in the motor vehicle industry where output was 16.3 per cent higher than the same period a year before.

Output in the metals industry rose 12.5 per cent and paper, printing and publishing output grew by 12.2 per cent in the same period.

In January, the index of production industries output stood at 114.8 (1980=100) compared with 115.5 in December. The energy output index was 118.5 (1980=100) compared with 121.7 and the index of manufacturing outpnt was 113.5 (1980=100) against 113.3.

Central forms world TV group

BY RAYMOND SNODDY

CENTRAL Independent Television has set up an international joint venture with American and French partners to produce and distribute premium programmes for the world television and video markets.

The venture, World International Network, groups Central, the second largest of Britain's ITV companies, and two television co-production companies, Larry Gershman Entertainment of the US and Revcom of France.

Broadcasting organisations in 25 countries, including RAI in Italy, the Seven Network in Australia and TF-1, the French first channel, have already joined WIN.

The aim of the consortium will be to raise the large amounts of money needed to fully fund expensive programmes such as drama in advance while at the same time assuring member broadcasters access to a stream of quality productions at a reasonable price.

Mr Leslie Hill, managing director of Central, said in Los Angeles where the joint venture was launched: "This unique venture will enable us to develop, produce and distribnte quality television and video programming to the ever growing world market."

The three partners will put up about $5m to develop ideas to a stage where production funds can be raised.

WIN said that projects could be developed by member companies or on their own or together with US producers.

Once a US sale had been made all the WIN member companies would reconfirm their commitment to it and put up a proportion of the cost in return for the right to show the finished product.

"The combination of the US licence fees and the pre-committed member licence fees will not only cover the cost of production, but also put the project into profit before production begins," WIN claimed.

P&O sacks 2,300 as strike continues

By Jimmy Burns, Labour Staff

P&O European Ferries last night began issuing dismissal notices to 2,300 Dover-based seamen after National Union of Seamen officials voted to recommend a continuation of the six-week-old strike over proposals for new working practices.

At the same time, the company announced that it was making progress towards a separate agreement with Numast, the officers' union, which threatens to provoke a serious rift between the maritime unions.

P&O said yesterday that it was still hoping that most of its employees would accept new contracts of employment based on reduced crews and more flexible shift patterns.

Bnt NUS officials said they expected a mass meeting of the P&O membership today to reject the new contracts.

Mr Mike Gibson, the union's chief spokesman, predicted that while a few NUS members might be tempted to "sell their jobs" and accept redundancy, the "gut feeling" was overwhelmingly opposed to an agreement on the company's terms.

Numast officials, meanwhile, confirmed that progress was being made in separate talks with P&O after what they claimed were "substantial concessions" by the company.

The company is believed to have agreed to reduce the number of redundancies among officers it is seeking from 200 to just over 100, and to less radical changes in shift patterns.

Numast said it will not sign any agreement which would act to the detriment of "any other union." However, NUS officials have privately criticised the lack of co-operation between the unions during the dispute and fear the company is pursuing a "divide and rule" strategy.

Lord Young presses for more UK seats on Tokyo exchange

By Carla Rapoport in Tokyo

LORD YOUNG, UK Secretary of State for Trade and Industry, has told the Tokyo Stock Exchange that at least two more British securities firms, BZW Securities and James Capel, should be granted seats on the exchange.

At the same time, however, Lord Young said yesterday that 20 years of trade tensions between Japan and the UK had now ended.

"I'm sorry there was 20 years of conflict," he said. "I'm looking forward to 20 years of harmony."

Lord Young's softer tones reflect Britain's new, more positive approach to trade with Japan.

In years past, British cabinet ministers and senior officials usually arrived in Japan with laundry lists of trade complaints.

Now, however, only a few of those issues remain. Although the trade imbalance remains large, Britain has stopped complaining about it, preferring to encourage British industry to export more to Japan.

Lord Young visits a Tokyo department store

In his talks with the TSE this week, Lord Young said that the Tokyo market should be as open as New York or London in terms of admitting new members.

Only a year ago, a senior UK official in Tokyo was angrily demanding seats on the TSE for four UK securities firms. Those seats have since been granted.

On the matter of reforming Japan's taxation of high quality whisky, Lord Young said that Japan's Foreign Minister, Sosuke Uno, had assured him that the necessary changes will take place.

Further, he said that Britain no longer favoured protectionist measures against the Japanese and that British industry was now capable of competing with the Japanese in the UK market.

Sacked options trader sues stockbroker

BY STEPHEN FIDLER, EUROMARKETS CORRESPONDENT

STRAUSS Turnbull, the stockbrokers, is being sued by a former senior employee for wrongful dismissal after one of the firm's clients suffered big losses in the traded options market.

Mr Claude Rodrigue, 57, who played bridge for England for 22 years until 1982, was dismissed on Friday, for losses during the stock market crash in October.

He said yesterday that he had issued a writ arising from his dismissal and it had been served yesterday on Strauss Turnbull. Mr Rodrigue had been at Strauss Turnbull for about seven years, where he was working on a so-called half-commission basis, implying that a large part of his remuneration would have been on commissions on the client business he brought in.

He was depicted as a man of considerabla experience in the market. The reason for the five-month delay before his dismissal was not clear.

The firm declined to comment on reports suggesting the size of the loss ran into several millions of pounds, saying it was not possible to put a figure on the loss since it had not been realised.

A spokesman would not say whether the firm intended to reimburse the client, or seek compensation from Mr Rodrigue.

Strauss Turnbull, in which Hambros, the merchant bank, and Société Général of France each hold a 29.9 per cent stake, last month announced a 14 per cent cut in staff, reducing its workforce to around 300, partly because of reduced trading volumes in the stock market.

Electricity consumer body invites call to wind up

BY MAURICE SAMUELSON

THE NATIONAL Electricity Consumers Council wants to see itself abolished when the electricity industry is privatised.

The council, the official watchdog body for electricity users, makes this recommendation in its evidence to the House of Commons Energy Committee.

It believes that under privatisation electricity customers would best be protected by a powerful regulatory body.

The creation of this body is even more important than the way the generating and distribution of electricity will be restructured, it adds.

The council has already criticised the wave of price increases to start on April 1. Yesterday, Southern Electricity announced an average 10.7 per cent rise, in line with the higher financial target set last November by Mr Cecil Parkinson, the Energy Secretary.

Our Belfast Correspondent writes: Electricity prices in Northern Ireland will rise between 7.5 per cent and 13.5 per cent. There will be an average rise of 8.5 per cent for domestic consumers and 11.6 per cent for industrial and commercial customers.

Ulster's electricity tariffs have been linked to the highest prices in England and Wales for several years and, since 1981, the Government has paid £350m in subsidy to the public ntiliy (Northern Ireland Electricity.)

The high cost reflects the province's reliance on expensive oil-fired stations. In putting tariffs up, the authorities have consciously decided to disregard the current collapse of oil prices and to maintain the link with top tariff movements in Britain.

The Confederation of British Industry in Northern Ireland denounced the increase as "a major blow" to the competitivness of some Ulster companies. The General Consumer Council and trade unions also attacked the higher tariffs.

However, Dr Roelof Schierbeak, NIE chairman, said the province had benefited in the past from generous subsidies.

IN BRIEF

GM plants return to work after pension deal

Normal working resumed at Genaral Motors plants in the north-west of England yesterday after about 7,000 workers accepted a pensions package agreed on Sunday.

The 5,000 workers at Vauxhall Motor's plant at Ellesmere Port, and the 2,000 at AC Delco's electronics plant at Kirkby, near Liverpool, were at the forefront of the GM unions' two-year campaign to press the company to use a £241m pension fund surplus to fund improved pensions.

GM had proposed that a quarter of the surplus should be invested in operating companies to make up for past losses.

About 20 more workers at Land Rover, crossed picket lines to return to work yesterday, after about 50 returned to work on Monday.

Sir Henry Johnson

Sir Henry Johnson, who has died aged 81, was chairman of the British Railways Board from 1968 to 1971, at a time when the rail system was recovering from the upheavals of the Beeching era.

Like the present chairman, Sir Robert Reid, Sir Henry joined the then privately-owned London & North eastern Railway as a management trainee before progressing to the top job in the nationalised industry.

Sir Henry presided over a dramatic improvement in the financial performance of the board, which lost £147m in 1968. It reported surpluses of £15m in 1969 and £9.5m in 1970.

Sir Henry's chairmanship was seen as a period of consolidation after the big reduction in operating capacity implemented by Dr Beeching in the early 1960s and completed between 1965 and 1967 by Sir Stanley Raymond.

Komatsu output up

Output hy Komatsn UK has increased elevenfold in the past 12 months, the company said yesterday. It added in a progress report thet turnover this year was likely to be £50m, which would be three times as high as in 1987.

The company said it had created about 600 jobs among suppliers and 275 on its own payroll in the two years since it took over the old Caterpillar factory at Birtley in Tyne and Wear, north east England. Exports have accounted for 70 per cent of production so far.

Concrete ruling

The Restrictive Practices Court yesterday confirmed thet price fixing and tender rigging agreements among 48 ready-mixed concrete companies were against the public interest.

It accepted undertakings from most of the companies involved and issued orders against others to ensure that the deals were not enforced.

The case ended a further stage in the Office of Fair Trading's long-running investigation of the concrete business. Earlier court hearings had dealt with almost 200 similar agreements.

MANAGEMENT

Managing Britain's health service

Why the best option may yet lie within

Tony Cook argues that too much emphasis is being placed on looking outside the NHS to find ways of raising cost effectiveness while maintaining standards

THE FUNDING structure of the National Health Service is not set in stone. It has changed from time to time in the past and will continue to change in the future.

This fact is important because in the current debate on the way the British health services are to be funded there is a grave danger of concentrating on *external options* (such as insurance-based schemes or health vouchers) and ignoring rational options generated internally.

It all depends, of course, on what is the political objective. However, as long as that objective remains to provide health care to the whole population, as efficiently as possible, and free at the point *of* delivery, then the most attractive option is in prospect from within the NHS.

The Government argues that securing better "value for money" (VFM)is a fundamental task of health service management. To help achieve that objective it has funded the development of new systems of financial information under the titles of Management Bndgeting and – more recently – Resource Management.

However, important though they are, these developments are simply two in e long series and the need for better information was clearly identified in the Royal Commission Report of 1978.

After the 1974 NHS reorganisation the present "departmental" system of budgeting was introduced to which subjective items of expenditure (ie salaries, drugs, dressings, etc) are allocated to budgets for hospital departments. This system of budgeting is still being refined but has proved to be very effective at enabling Health Authorities to live within their – cash limited – means.

One obvious objective is for doctors to treat as many patients as possible

However, if we are concerned with value for money – in particular with "efficiency" and "effectiveness" as well as "economy" (the accepted Government definition of VFM) – then the departmental system of budgeting has three severe limitations.

They are: 1. It provides no analysis of expenditure by health care category; 2. Doctors' clinical decisions commit resources for which they are not the bndget holders; 3. Budget holders – such as a pharmacy manager – have to live within e pre-determined budget, although the level of activity is outside their control.

All of the government-inspired and other new developments in financial information can be seen as attempts to overcome some, or all, of these limitations. They all share the common approach of adding an additional – clinical – analysis of expenditure. Clearly as with "subjective" and "departmental" analyses so clinical analyses of expenditure may be provided in greater or lesser detail.

However, the Department of Health and Social Security accepts that there are five possible levels of analysis for the clinical axis: 1. client group (mental handicap, maternity, etc); 2. speciality (orthopaedics, paediatrics, etc); 3. to consultant; 4. by disease category (hip replacements, appendicectomies, etc); 5. to the individual patient.

In fact attention has been paid within the Health Service and elsewhere at different times and in different initiatives to developing financial information appropriate to each of the above levels of analysis. However, in the Government's Management Budgeting trials the aim was to develop financial information relating to the "speciality" or "consultant" levels above. It was argued that the objective was "to develop management budgets involving clinicians at unit level with the emphasis on management rather than accountancy. The aim is to produce an unsophisticated system in which workload-related *budgets covering financial* and manpower allocations and full overhead costs are closely related to workable service objectives, against which *performance and progress* can be compared."

One obvious service objective, if value for money in general and efficiency in particular are the yardsticks, is for doctors to treat as many patients as possible. Given constraints of facilities available and the necessary safeguards as to quality of care, though, there are inevitable problems in meeting such an objective.

The question of case mix inevitably arises at this point. Consultants will argue that, even within the same speciality, patients differ and some (or some categories of patient) will take longer to treat than others.

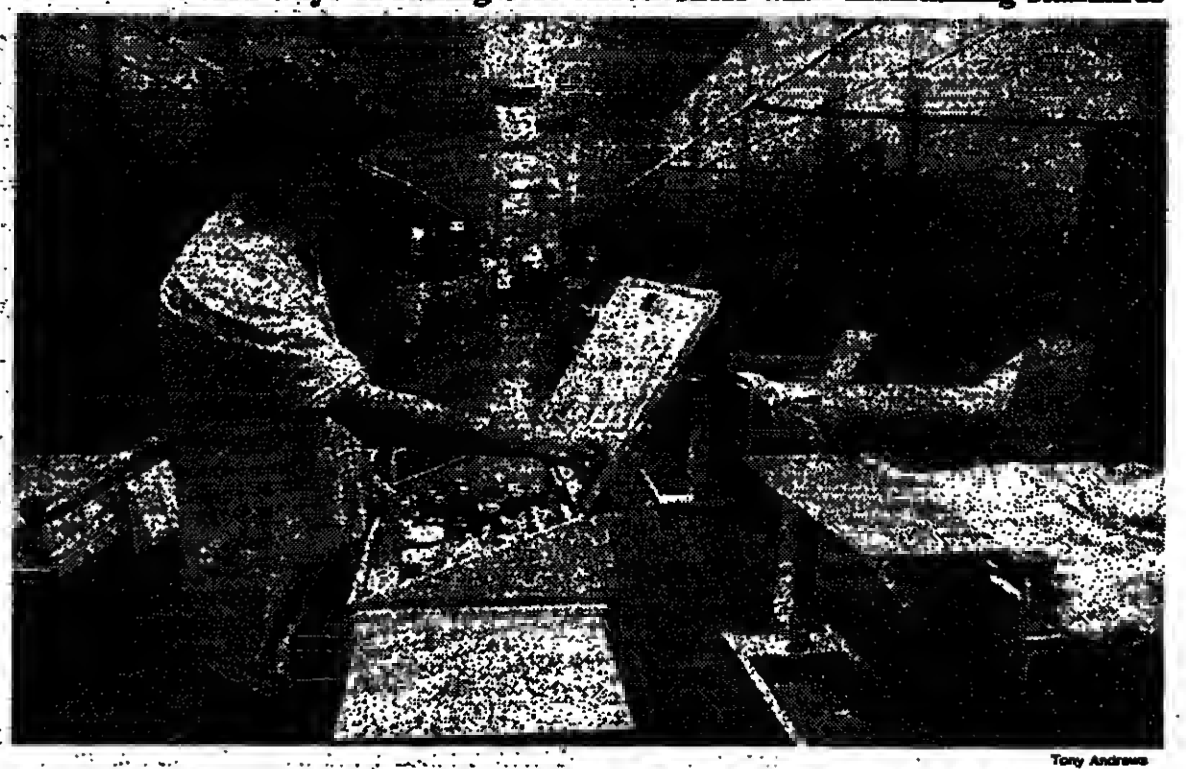
Quite so: if a budgeting system is to be "workload related" it must be able to take case-mix into account as well as the number of patients. It is for that reason that in the latest trials six acute (general) hospital sites were identified for the introduction *of* "case-mix planning and costing".

Such a system would require that patients falling into similar disease categories and requiring similar treatment regimes, should be grouped together.

There are several approaches to identifying patient groupings in this way, but the new sites are concentrating on the system of Diagnosis Related Groups (DRGs) developed at Yale University and containing 467 categories of acute patient.

Already in the US, DRGs are being used as a system of health care funding. Under the Medicare programme, private hospitals treating Medicare patients are being reimbursed on the basis of an externally calculated price per DRG category.

In the British trials a treatment pattern is being identified for which it is then possible to calculate standard costs. The more cumbersome expression "resource homogeneous diagnosis related groups," makes the point *that*, for this to be an effective financial management system, groups must be identified which make medical sense (ie they are "diagnostically related") and accounting sense (ie they are "resource homogeneous").



Tony Andrews

Under the "departmental" system of budgeting, salaries, drugs, dressings, etc are allocated to budgets for hospital departments

The emphasis at the case-mix sites has correctly been on using the information to enable e hospital to be better managed within the present funding system. Indeed several benefits should accrue from a successful introduction of DRGs and fixed budgets.

They should give clinicians a better picture of how they are managing their resources. They should enable a health authority to plan at the case-mix level (what for example are the financial consequences of doubling the number of hip-replacements?) and should provide much fuller information for the allocation of resources between Health Authorities.

However, what has not yet been sufficiently widely recognised is that DRGs do hold the key to an equally substantial prize – namely a rational funding structure for the NHS. Many management accountants from a manufacturing background will see nothing particularly radical about the concept of a DRG. It is simply a standard product cost – ie, "the cost" of a product defined in terms of the "standard" inputs of labour, materials, and services, etc, required to produce one item.

Moreover, just as it is normal for a manufacturing organisation to calculate standard product costs, so it is normal for them to "flex" budgets to take account of changes in volume and mix of the actual workload.

In this way, when a manufacturing organisation achieves a higher volume of sales, and a different "mix" of products from that originally budgeted, the works manager would expect his budgeted expenditure on variable expenses (such as raw materials), to be adjusted upwards to take account of the increased workload. There would be little purpose in comparing actual expenditure against the original – fixed – budget.

The introduction of DRGs means that flexible budgets could be applied in a hospital, and indeed one of the NHS's key management budgeting computer systems makes provision for them.

Moreover, in e hospital the usually high proportion of fixed expenses and the correspondingly low proportion of variable expenses means that flexible budgets could be applied – with relatively minor consequences for total expenditure.

In addition, there are several benefits which only accrue from the successful introduction of DRGs and flexible case-mix budgets.

1. They would provide the incentives for clinicians to participate in resource management in that those who treat more patients (and more complex cases) would receive more resources.

2. Similarly, the clinician who treats fewer patients would receive fewer resources.

3. In the current system of departmental budgeting we frequently see the absurd situation of the spotlight falling on the activities of those clinicians who treat too many patients. With flexible case-mix budgets it will be those clinicians who treat too few patients who will be under the spotlight.

4. Only with the introduction of flexing – including flexing the budgets of service departments such as the *pharmacy – do we overcome the* third limitation of the present system of departmental budgeting.

If maximising the delivery of VFM *is* a serious objective then the introduction of DRGs and flexible budgets as a system of financial management is essential.

If we now turn to the practicalities of the introduction of flexible case-mix hndgets, four issues arise. Firstly, there is the question of whether the NHS has the capability to introduce them now. Secondly, there is the potential conflict between efficiency and effectiveness. Thirdly, there is the need to review the funding structure of the NHS to facilitate their introduction. Finally, there is the question of whether they would initiate a spending "free for all".

In fact the capability to introduce flexible case-mix budgets clearly does not exist now. The trials at the identified sites are still in their infancy and much work needs to be done before a satisfactory system of case-mix management is developed.

Furthermore, both to be consistent with the principles of budgeting as a management philosophy, and with clinical freedom, it would not be possihle to define a standard product cost for a particular DRG in one hospital and impose it on another.

The system could only be introduced with the active involvement of the consultants at each hospital. Clearly there is a long lead time. The probability is that it will be a further two or three years before the success of the original trial sites can be fully assessed (although an initial evaluation is due in 1988).

It would then be several years before such a system could be introduced in all NHS acute hospitals. The final cost of computer hardware, software, and senior finance staff is considerable, and will not be committed on e large scale until it is demonstrated that the benefits outweigh it.

The second major area of concern is the potential conflict between "efficiency" and "effactiveness". Will pressures to maximise patient throughput result in their being discharged from hospital prematurely with perhaps consequent re-admissions or even avoidable deaths?

That danger does, of course, exist but can be guarded against with proper emphasis on quality assurance. However, the real benefits of DRGs should mean that greater attention is paid to the constituent parts of a patient's length of stay.

Currently, an NHS hospital is organised to make the best use of consultants' time. DRGs will involve e rethinking to make the best use of the patient's time.

Many delays occur in NHS hospitals while patients are simply waiting for the attention of their consultants. It can be argued that an improvement of efficiency in this area would provide substantial savings and would result in an enhancement of the quality of care. Let us now turn to the question of the funding structure ofthe NHS.

Currently, only the Hospital and *Community Health Services are cash* limited. The Family Practitioner Services are not. So in reality the NHS, like public expenditure as a whole, is a mixture of sectors which are cash limited and sectors which are "demand led".

It therefore becomes possible to conceive of an alternative structure in which some parts of the NHS remain cash limited (perhaps tha long stay services with funds earmarked by a separate Parliamentary Appropriation, perhaps parts of the Family Practitioner Services) and *some parts (acute* hospitals) are not.

Would this therefore initiste a spending "free for all"? Not if it is handled properly. Ample means still exist to retain broad control over acute spending while still providing the incentives to DHAs to treat as many patients as possible and to be *as efficient* as possible.

First, there are the sheer physical constraints of the hospital stock, together with very tight controls over the capital building programme. Second, there are controls over consultant appointments. Third, such a system would require more detailed *short-term planning* with greater regional scrutiny of district plans, and the costs embodied in tha DRGs.

Collectively these controls would enable the DHSS to ensure that acute spending remains within e broad target and that it is satisfactorily distributed between regions and districts. The introdnction of flexible case-mix budgets into NHS scute hospitals is not something which will happen overnight. Considerable development work remains.

. . . much work needs to be done before a satisfactory system of management is developed

In parallel, resource management systems need to be developed for other sectors of the NHS. A start has been made with community services. The long stay services and the Family Practitioner Services are largely untouched.

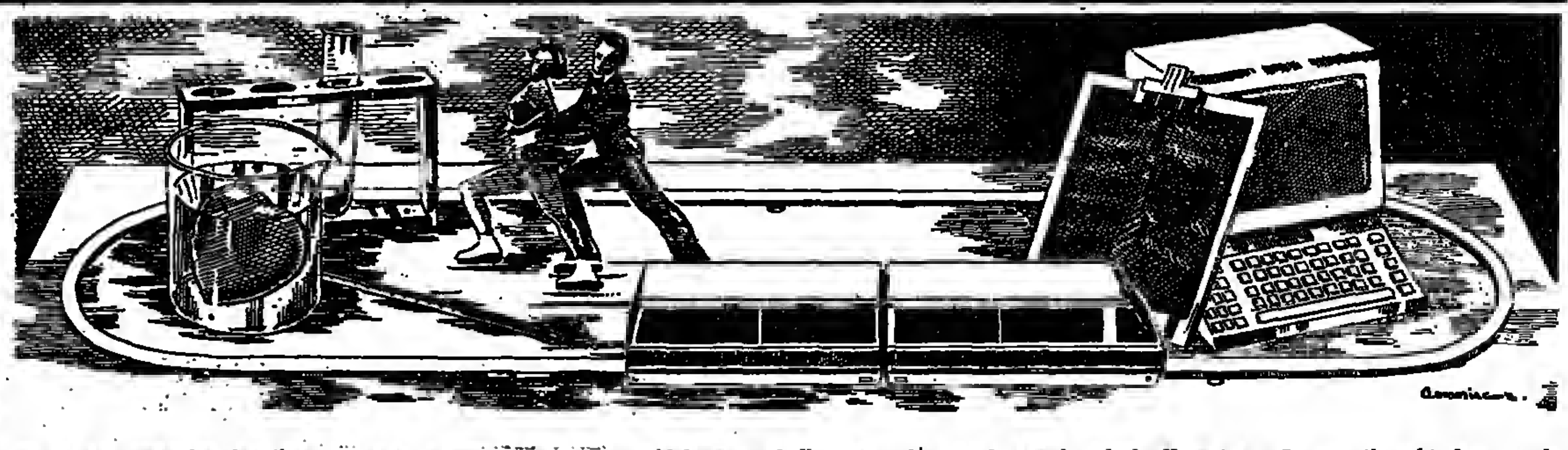
Not enough is known of the interfaces: of the financial consequences of decisions taken in one sector of the NHS on other sectors. However, flexible case-mix budgets do hold the very real prospect of a logical funding structure which does maximise the delivery of VFM, and retains an NHS funded from taxation, covering the whole population, and delivered free at the point of use to the patient. It is a substantial political objective which is not achieved under the present structure and cannot be achieved under any alternative structures.

Tony Cook is Lecturer in Financial Management at the Health Services Management Centre at the University of Birmingham.

TECHNOLOGY

What Interlaken heard from the supermen

The world's leading researchers into superconductivity recently met for their first big conference. Jane Rippeteau reports



SINCE so-called warm temperature superconductors were discovered a year and *a half ago*, the public has heard tantalising hints of what the technology could make possible: levitating trains, faster computers and cheap medical scanners are among them. One scientist foresees an ice-less rink with skaters twirling about in special shoes that take advantage of superconductivity's inherent magnetic repellence.

Bnt scientists agree that a decada or so of development work stands between major commercial applications and what today is still very much a laboratory-bench science.

At the first big international scientific conference on the science, held in Interlaken, Switzerland this month, there was a distinct sense that a lot of hard work lies ahead.

Superconductors allow electricity to flow without resistance. For this to happen materials in use today mnst be chilled to absolute zero (0 degrees Kelvin, or -273 degrees Celsius). But newly-discovered compounds work at warmer, though still very cold, temperatures which are cheaper and more convenient to obtain using liquid nitrogen.

Scientists would like to find a superconductor working at room temperature. But even without such a miracle product, they *have their hands full. So far, they* do not even understand how or why the new generation of "warm superconductors" work. The *materials cannot be mann*factured into in any useable form such as wire or thin film, and they can carry only a limited *density of electrical current.*

At the conference, which attracted over 1,200 scientists, an international panel was asked whether the *public could expect* to see any applications soon.

Only Professor Koichi Kitazawa of the University of Tokyo in *Japan*, a country noted *for* reacting fast to the commercial angles of new technology, responded. He predicted that "a first commercial prototype" *of a* hand-held device for detecting minute magnetic fields – such as those created by brain waves – would be on *sale* in Tokyo to *two* years.

For the most part, however, "people are expecting too much too quickly," said Arthur W. Sleight, research leader in the central research and development unit of E.I. Du Pont de Nemours & Co, the US chemicals group.

Alex P. Malozemoff, who co-ordinates superconductor research at IBM'e Yorktown Heights Research Center added: "There *are certainly opportunities*, but none yet that come ont and strike you with such overwhelming opportunity that you turn the *business upside down.*"

Still, companies whose businesses could be turned upside down by the technology cannot *afford to ignore it and risk loos*ing a technological edge to competitors.

IBM, for instance, is interested in enperconductivity'e possible impact on processing speed in computers.

But so far, explained Malozemoff, despite "big strides," the density of electrical current that the new superconductors could transmit was still of an order of magnitude below that desired.

He said IBM believed that superconducting wire may have a use *in chip packaging*, but that the possibility of on-chip applications of superconducting wire were not very good.

AT&T, the US *telecommunications* group, is in a similar bind. Superconductors could transform long-distance telecommunications *transmission*, but "there *is* another technology out there already that is damn hard to beat: optical fibre," said William *F. Brinkman of AT&T Bell Labo*ratory.

Transmission rates with optical fibre, to which information was sent *in the form of light* pulses, were rising and there was no reason they would not continue to rise, he said.

AT&T had had *important* success making thin superconducting films with high current density using a proprietary process in which the material was heated to 1,300 degrees Celsius and then cooled in a particular way, according to Brinkman.

But the company had not yet been able to transfer the technique to making wire. "We surely will be able to make wire out of these *things in the next few years,*" Brinkman predicted.

The bulk of presentations at the conference concerned basic physics research. A number of presenters gave evidence of the increasingly-accepted belief that the compounds' structures are like sandwiches, with the slices of bread being layers of copper and oxygen and various metal combinations making up the "meat" *fillings*.

Hiroshi Maeda of the National Research Institute for Metals in Tsukuba, Japan, talked about his widely-vaunted discovery of a bismuth, strontium and calcium mix as the "meat" between copper oxide layers in a compound that goes superconducting at 105 degrees Kelvin.

The finding had generated excitement in the several weeks prior to the conference because it was the first significant improvement over the 94-degree compound found last year by Paul Chu at the University of Houston, and well above the 40-degree superconductor found by Alex Mueller and Georg Bednorz of *IBM*, who won the Nobel Prize last year for launching warm-temperature superconductivity.

Special night sessions at the *conference* had been organised to give last-minute presenters a chance to unveil their bismuth work. To everyone's surprise, his mouth was knocked off centre stage by yet another new compound using thallium and found just days before at the University of Arkansas. IBM researchers, tipped off by a telefax from a government colleague, cooked up their own batch, ran tests, and announced a 125-degree superconductor.

Suddenly, the conference's telefax facility was jammed as participants faxed news home and their colleagues dutifully faxed back test results. Sleight of Du Pont, B.D. Dunlap of the Argonne National Laboratory and Prof. Zohong-Xian Zhao of the Institute of Physics of the Chinese Academy of Science, where over 70 people are working on superconductors, were among those to confirm the thallium superconductor.

It was thought few people would want to work with thallium because its high toxicity makes it extremely dangerous.

The end of the week, however, found some people more discouraged than exhilarated by the pace of development. One of England's top researchers to the field, Yao Liang of Cambridge University, recently selected as the site for the UK's new University Research Centre in superconductivity, lamented the dearth of British papers at the conference. In the formal sessions, there was just one, against over 30 from the US and more than two dozen from Japan.

"For the last six months, we have been working on funding applications," said Liang. "It could be another six months before we catch up."

●Bertram Batlogg

Biting into family life

DINNER is about the only time during the week that Bertram Batlogg's three children see him. As head of Solid State and Physics of Materials Research at AT&T Bell Laboratories in Murray Hill, New Jersey, the 37-year-old Austrian-born Batlogg is one of about 300 physicists working in the laboratory's basic research group. And he is part of a small-core team devoting its full time to the investigation of warm-temperature superconductors.

The exact number working on superconductors at AT&T is confidential, Batlogg says. But he explains that on any given morning, between 20 and 40 individuals will be involved, some for only short periods before going on to something else. Batlogg is working on nothing else.

Since new compounds have come out in the last month, "we have been working 16 hours a day, seven days a week," he says. "It's an enormous strain on your personal life."

Can the family take it? Batlogg thinks so. His children "like to see Daddy's name in the newspaper," he says. "They go to school and show it around. They know very well why I'm not there."

After dinner, Batlogg returns to his lab to pursue his hunches that a superior superconductor is possible by mixing lead with bismuth.

"We are working on many different things," he says cryptically, critical of those who say too much too soon. "It's very boring and tiring to see all your colleagues rush out with every little incremental improvement."

One reason for Batlogg's caution is the desire to protect discoveries with patents before disclosing information. There is little delay, he adds. "If we have something, we just call up our patent lawyer and say, 'George, get ready. We've just found something.' It's fun." Batlogg will not say how many patents AT&T has applied for in superconductors, except that the number is "well under 100" and that the emphasis is to cover broad basic rights.

At the moment, Batlogg would not change the sacrifices he is making. "The future has never looked brighter," he says. "There is nothing he would rather be working on – nothing else that has the potential really to change our lives. "There are tremendous highs when you find something new."

●Paul Grant

Hot news out of the blue

WITH HIS long white hair, thick white beard and snug blue jeans, 53-year-old Paul Grant does not fit the usual buttoned-down-collar image of International Business Machines Corp.

So there was little chance he would go unnoticed among the over 1,200 scientists gathered to discuss superconductors in Interlaken, Switzerland. Grant, manager of the magnetism and superconductivity project at IBM's research centre in Almaden, California, also made sure he was not lost in the crowd when he provided the event's hottest news item: that his team had found a working superconductor at 125 degrees Kelvin, a distinct improvement over anything yet discovered.

IBM's coup depended on a scientific network that gave the company a lead over its competitors, Grant explains.

The thallium compound was actually discovered by Z.Z. Sheng and A.M. Hermann in the physics department of the University of Arkansas.

Lacking the equipment needed to analyse the substance, Sheng and Hermann submitted their work to Robert Hazen at the National Geophysical Laboratory in Washington, D.C. They also sent a paper to the world's premier physics journal, *Physical Review Letters (PRL)*.

As it happened, Grant had recently *reviewed* a book by Hazen about superconductors. Hazen completed his analysis, submitted his own paper on thallium, citing Arkansas, and immediately sent a copy to Grant by telefax.

Grant was travelling at the time, but his team, including Ed Engler, Ed Nazzal and Victor Lee, confirmed the Arkansas work within a day – less than a week before the Interlaken conference.

When Grant's turn at the microphone arrived at 10.30 pm on Tuesday night, during extra sessions to cover new developments, he moved his colleagues to applause and cheers when he announced "a 118-degree superconductor."

Twenty-four hours later, Grant rose again during a night question-and-answer period to reveal his team had the thallium mixture working at 125 degrees.

He would not reveal the formula. And, as thallium is extremely toxic, he suggested that the compound's best use will be as an aid in understanding how superconductors work, rather than as a commercial product.

●Arthur Sleight

Lady Luck holds nap hand

THE MOST frustrating thing about working on superconductivity right now "is that the rational approaches don't seem to be working," says Arthur W. Sleight, research leader in the central research and development unit at E.I. Du Pont de Nemours & Co, the US chemicals group.

Discoveries are hit and miss, he says. "The systematic approach doesn't seem to be working that well. Something new is discovered and it turns out it's from somebody we've never heard of before. It's people just mixing things together and getting lucky."

Like most researchers working on superconductors, Sleight has to act quickly to check out the new reports. "Everybody wants to be first to make a new compound or to be first to develop some degree of understanding of a new one that has come along," he says.

After a full late last year, two new recipes have come out of laboratories to challenge the so-called 1-2-3 formula of yttrium and barium that held sway during 1987. First came a mix of bismuth and strontium. "We just heard about a press release from Japan (about a discovery by Hiroshi Maeda at the National Research Institute for Metals). All we knew were the elements, no proportions and no conditions of how it was made," says Sleight.

Yet, working for three weeks including weekends, Sleight and his team managed to get out one of the first major scientific papers detailing the chemical formula and analysing the compound.

Days later, a report from the University of Arkansas detailed another winner, one containing a substance close to bismuth on chemistry's periodic table: toxic thallium. Sleight's team, competing with researchers at IBM and elsewhere, quickly cooked up a batch and began running tests.

"The superconductor of choice seems to change every few weeks," says Sleight. The effort to keep up is daunting. "Most of us who are really serious have been working at a feverish pace for a year, and we're starting to get tired. It's too exciting to leave it, but you have to have a break."

And have a break he did. Mid-week at the Interlaken superconductivity conference found Sleight heading off to the mountains to ski.

Letters to the Editor

No prosperity in a weak £

From Mrs Dagmar Shaw.

Sir, Mrs Thatcher's statement on the official sterling intervention (FT report, March 9) is exciting.

I am tired of listening to the false arguments made in favour of the weak £ by some incompetent industrialists and others. Weak currency promotes inefficiency and low productivity. It enables payment of unrealistically high wages in the domestic industry. West German and Japanese industrialists have learned to prosper under strongly appreciating currencies by increasing the output per man-hour and by aggressive marketing and strict quality controls. British industry should try harder to improve the reputation and the image of its goods abroad rather than sheltering behind a cheap currency.

The British Prime Minister understands that the prosperity of the UK *does not lie in a weak* currency but in efficient, hard-working industry. Weak sterling impoverishes British people by transferring resources abroad (dearer imported raw materials with lower income from exports). The economists now realise that the famous "J-curve" of foreign trade has worked in the UK in only one direction: downwards.

I hope the Prime Minister will be able to persuade her Cabinet ministers of the sanity of the strong £, and the inflationary implications of foreign exchange intervention which accelerates expansion of the domestic money supply while the economy is already running at a historically high growth rate.

Dagmar Shaw,
17 Pratt Mews, NW1

Accountants already compete

From Mr Arthur Green.

Sir, For some reason, when Lord Young issued the Government's Green Paper reviewing Restrictive Trade Practices (RTP) policy he singled out the accountancy profession as one of those which enjoyed a *carte blanche* exemption from RTP legislation, and would therefore be particularly affected by the new approach proposed in the Green Paper.

In case any of your readers have been misled, I should like to emphasise that most of the services provided by accountants fall within the ambit of the Restrictive Trade Practices Act 1976. The accountancy profession is already highly competitive. We have no mandatory fee scales and no cartels. Firms set their own fees and are keen to compete on both price and service. Restrictions on advertising have already been lifted, as shown almost daily in the pages of the Financial Times.

Many firms in industry and commerce will be very significantly affected by the Government's proposals, but, given the very open market in which all firms of accountants operate, it is not easy to see that the Government's new policy will result in any further intensification of competition for this profession.

Arthur Green,
The Institute of Chartered Accountants,
PO Box 433,
Chartered Accountants' Hall,
Moorgate Place, EC2

Bringing the shops to book

From Mr Michael Greener.

Sir, It is probably true that the large bookselling organisation – for example, W.H. Smith – will require the full price up front before accepting a special order and, in addition, will be less than swift in fulfilling that order. The factor that Mr Gregory (Letters, March 11) overlooks is that such organisations which can prosper happily from off-shelf sales are not eager to incur the extra cost of processing small single-copy special orders.

As a small bookseller who must rely on providing a service, rather than on a speedy turnover of bestsellers, I can assure him that not only would a small deposit suffice, but that most orders can be fulfilled within three weeks. Any delay beyond that point would be entirely due to the publishers, whose efficiency in servicing small orders leaves much to be desired.

Michael Greener,
33 Glan Hafren,
The Knap,
Barry, South Glamorgan.

Intervention can cause inflation

From Professor Geoffrey Wood.

Sir, In his article on March 10 Samuel Brittan made the undoubtedly correct observation that we no longer have a clearly articulated monetary policy in the United Kingdom, with the consequence that there will be unnecessarily high inflation and unnecessarily high unemployment.

But in the course of making that argument he was misleading on a matter which, while a technicality, can from time to time be important.

He remarked that foreign exchange intervention is not inflationary because the resulting increase in the supply of money is matched by an increase in demand – for people have been buying the currency.

It is correct that they must have been buying the *currency*. But do they wish to hold it, or do they want it to allow the purchase of goods and assets? Only in the special case where they actually want to hold the currency is intervention not inflationary – for only in that special case does the demand for money rise with the supply of it.

In summary, while it is wrong to claim that intervention to depress a currency is *always* inflationary, it can very readily be, and often has been. A government which wishes to eliminate inflation should think very carefully indeed before engaging in such intervention.

Geoffrey Wood,
City University Business School,
Frobisher Crescent,
Barbican Centre, EC2

A profitable, internationally respected industry should not be undermined

From The Earl of Winchilsea & Nottingham.

Sir, What is this Government doing to the British record industry? There are two answers to this question. First, the Government does not know what it is doing, and second, that in doing it, this profitable industry is being seriously undermined.

Let me take two issues.

1. Royalty payments on sales of blank audio tapes to copyright owners, performers, musicians and authors.
2. Copyright protection for recordings available for rental.

This Government refuses to recognise the need for a small additional charge on blank audio tapes to help offset the huge loss of sales due to home taping. Why? Because the Secretary of State at the Department of Trade and Industry sees any charge on tapes as a tax on the consumer, whose rights must be protected over those who produced the recording. He is also interested in buying votes from the young; over 85 per cent of home taping is at the expense of the popular music side of the industry. It has been estimated that this sector lost £85m in royalties to home tapers last year.

The Government does recognise the dangers of compact disc (CD) rental to the industry. CDs are ideal rental material. They are small and do not wear out or scratch easily. The Government's answer to this threat is to follow the example of Japan – where there are now over 3,100 CD rental shops – the very worst example it could find. In Japan, foreign works receive only 20 years copyright protection in retail shops. In rental shops the period of protection is one year from date of issue. In other words, no protection at all.

I warned the Government about this at the second reading of the Copyright Bill, based on two visits I made to Tokyo in 1987. One CD rental shop I visited made copies of tapes on the spot and returned the CD to the shelf within five minutes. It has been shown in areas of Japanese cities where there are both retail and rental shops, sales are down by up to 60 per cent.

The reason why Japan offers such inadequate copyright protection for foreign works is simple. It does not have an international record industry. Whoever heard of a Japanese hit record? By applying what happens in Tokyo to London and other UK cities, the Government is further undermining our own highly successful and profitable music industry, which at present accounts for over 25 per cent of all international sales. In terms of prestige and quality of product, both artistically and technically, the British record industry plays second fiddle to no one.

So the consumer is king? Well, I am a consumer too and if I go into a shop to buy a suit, I expect to pay for it. Why should the consumer of music not be expected to pay for it? If the industry is not given the protection it needs, it does not require a crystal ball to predict:

- Continued massive losses of revenue to the industry.
- Decreasing numbers of investors in the industry.
- A sadly depleted output.
- Loss of international markets.
- Closure of record factories, and resulting unemployment.

The loss to this country would be enormous. The consumer – the very person that this government seeks to protect – will be the ultimate loser. Can someone bring the Secretary of State to his senses?

Winchilsea & Nottingham,
House of Lords, SW1

● FT LAW REPORTS

Bank cannot claim for civil conspiracy

ALLIED ARAB BANK LTD v HAJJAR
Queen's Bench Division (Commercial Court): Mr Justice Hirst: March 10 1988

A CLAIM for conspiracy in tort will be struck out from pleadings if the predominant purpose of the alleged agreement was not to injure the plaintiff's interests, but was to promote the defendants' self-interests by avoiding repayment of debt or enforcement of judgment.

Mr Justice Hirst so held when granting an application by defendants in an action by Allied Arab Bank Ltd against Mr Taj El Arefin Hajjar and 50 other defendants, to strike out a conspiracy claim from the pleadings. The bank's application to re-re-amend that claim was refused. Its application to amend a claim in constructive trust was granted as against certain defendants only.

HIS LORDSHIP said the bank claimed against 51 defendants, alleging a huge fraud leading to $50m losses.

Apart from claims in debt and guarantee with which the present applications were not concerned, there were three heads of claim – bribery and fraud, conspiracy, and constructive trusteeship. The defendants applied to strike out all points of claim, other than claims in debt and guarantee. The bank applied to re-amend parts of the pleadings alleging conspiracy and constructive trust.

As in all applications of the present kind the court had to proceed on the basis that the allegations in the points of claim were true. That was purely an *assumption* for present purposes and in no way a *finding* which must await trial.

It was alleged that Mr Hajjar was the principal controlling mind of the UTC group of companies and corporate defendants. He, Mr Banda Tabbaa, Mr Tewfik Tabbaa and Mr Abdulhay Majeli, the second third and fourth defendants, were partners in the beneficial ownership of the group.

All the corporate defendants traded in a single entity as members of the UTC group. The bank's customers comprised five companies, all members of the group. The principal customer was Murray Clayton, now in liquidation. The four partners and two corporate defendants guaranteed jointly and severally the customers' liabilities.

Between 1978 and 1983 Mr Hajjar paid Mr Shukri, the bank's managing director and chief executive, $2.5m in bribes to procure payments to the customers. The bribery was undertaken by Mr Hajjar with the knowledge of his partners, the customers and the guarantors. Mr Lutfi Shukri Sakhel, a director of Murray Clayton and managing director of a number of defendant companies, actively participated in the bribery.

On December 31 1986 the customers were indebted to the bank for $44.5m and £4.5m. They defaulted on demands and their debts remained unsatisfied. The bank called on the guarantors, but no payment had been made.

Companies were operated by the defendants to receive assets from UTC group members, and to hold them for the purpose of frustrating judgments.

On the present applications the defendants objected to the fraud and bribery points of claim on the ground that the particularised list of alleged bribery payments extended over only part of the five years specified as the period of bribery.

Those criticisms went nowhere to justify a striking out. Further particulars might be available in due course. Also the bank would only succeed in so far as it could establish a nexus between proven bribes and proven losses.

The defendants sought to strike out the conspiracy plea on the ground that it disclosed no reasonable cause of action.

They submitted that the House of Lords decision in *Lonrho v. Shell (No 2) [1982] AC 173* had restricted the civil tort of conspiracy exclusively to cases where the predominant purpose of the defendants' agreement was to injure the plaintiff's interests.

The pleading was that all group companies and defendants had dishonestly conspired to defraud the bank of its right to receive money from group members. The proposed re-re-amendment was that they dishonestly conspired to injure the bank by depriving it of its right to receive money from group members; and that the purpose of the conspiracy was to prevent the bank from being able to enforce any claim against them.

The bank acknowledged that neither of those pleadings asserted an agreement whose predominant purpose was to injure its interests. It followed that if the defendants were right as to the effect of *Lonrho*, the conspiracy plea was irretrievably doomed, since it disclosed no cause of action.

In *Lonrho* Lord Diplock said with regard to civil tort that the authorities had made it clear that injury to the plaintiff "and not the self-interest of the defendants" must be the predominant purpose.

He was against extending the scope of the civil tort of conspiracy beyond "acts done in execution of an agreement by two or more persons for the purpose, not of protecting their own interests, but of injuring the interests of the plaintiff."

Lonrho, on its proper construction, limited the tort of conspiracy exclusively to cases where the predominant purpose of the defendants' agreement was to injure the plaintiff's interests.

It followed that the claim in conspiracy in the present case disclosed no reasonable cause of action. It was therefore struck out in its entirety. Leave to re-re-amend was refused.

What was claimed in the proposed re-re-amended claim was shortfall in recovery, unascertainable until after judgment and aly ensuing accounts or enquiries.

The courts stressed the need to plead special damage. Here the defect was compounded by the fact that unless damage were established, there would be no cause of action. None of the many corporate defendants could know for sure whether there was any cause of action against them.

Therefore, even if the pleading had disclosed a good cause of action, it would have been struck out on the ground that it was embarrassing, vexatious, and an abuse of process.

The defendants also sought to strike out the claim in constructive trust.

Constructive trust arose out of "knowing receipt or dealing" with trust property transferred to the constructive trustee in breach of trust; and "knowing assistance" in a trustee's fraudulent design by a person who did not actually receive the trust property (see *Snell's Equity 28th ed, pages 194, 195*).

In both cases knowledge was an essential constituent. In "knowing receipt and dealing" there must be either actual knowledge, or want of probity or failing to make such enquiries as an honest man would make. In "knowing assistance" there must be an actual assistance with similar knowledge.

The present plea made no differentiation between the two types of constructive trusteeship, and gave no indication as to which parts were relied on, nor what type of knowledge was asserted.

That was manifestly inadequate.

The proposed re-re-amendment substituted a completely new and much more extensive plea which took each defendant in turn, differentiated the two types of constructive trusteeship, and specified what was relied on for receipt, knowledge and assistance.

The defendants attacked the pleading on the ground *inter alia* that failure to identify the actual trust property constituted a fundamentally wrong procedure.

The bank's difficulties at the present stage were readily understandable in an age where companies could be formed or bought with ease in other jurisdictions, and money moved round the world at the press of a button.

The court was not persuaded that there was anything in the Supreme Court Rules nor in the authorities which *compelled it to* put a stop *here and now* to the plea of constructive trust as at present formulated.

Leave was granted to amend the constructive trust plea, except in respect of claims for "knowing assistance" against any defendant other than Mr Hajjar, his partners, the customers, the guarantors and Mr Sakhel. The case against the excepted defendants was entirely confined to judgment-proofing activities and there was no suggestion against them of any actual assistance direct or indirect in Mr Shukri's breach of trust.

For the bank: James Wadsworth QC and L.J. West-Knights (Richard Butler)

For the participating defendants: R.M. Sheldon (Wm F. Prior & Co); Michael Lyndon-Stanford QC and Nicholas Bard (Lewis Silkin); John Lindsay QC and Nigel Davis (McKenna & Co); Alan Newman and Antony White (Wood Nash); R.J. Powell-Jones (Wm F. Prior & Co)

Television/Christopher Dunkley

Ambitions beyond cops-and-robbers

The opening episode of *The Fear* was described here four weeks ago as the second most nauseating programme of the year (the nastiest being the BBC's Ayckbourn play *Way Upstream* with its disgusting fight sequences). The context was a discussion about violence, and there is no denying that this peak-time action series has been notable throughout for a powerful sense of menace, and an atmosphere of violence remarkable even by today's standards.

It would be unfair, however, to leave it at that. Having now watched all five episodes, including the final one which will be transmitted on ITV at 9.00 tonight, it is clear that this story, written by Paul Hines and directed by Stuart Orme, has had ambitions beyond those of the average cops-and-robbers programme where the pinnacle of dramatic inventiveness is usually reached as a car bursts through a pile of cartons on a dockside road and sails into the water, switching into slow-motion as the vehicle leaves the wharf.

The Fear avoided that cliché, and nearly all the others, which in itself makes it unusual during a period when there are so many crime series around. Moreover, it is not a cops-and-robbers story since there are no cops; perhaps it was this which caused some of us to leap to hasty conclusions. After two episodes Ted Willis, creator of *Dixon of Dock Green*, wrote an article for the Daily Mail which was headed "When TV turns rats into heroes."

Willis said his concern was with a very subtle sociological change reflected in *The Fear*: "When I was involved in *Dixon Of Dock Green* TV crime programmes were very simple. The good guys were the police. They were the heroes. The criminals were the bad guys. In *Z-Cars* it was the same. So too *The Professionals*. But the hero in *The Fear* is the villain."

Willis's concern is justified. Causal connections between public images of behaviour, and real-life behaviour are very complicated, but the intention behind the depiction is clearly of crucial importance. That is why the image of violence most frequently and vividly depicted in our society for the last 2000 years – the crucifixion – has not led to perpetual copycat crimes. It is why television commercials work (to some extent). It is why thrillers and Westerns, with white hats and black hats, however violent, have never been particularly worrying.

Worry would be justified on the day that the friendly character endorsing branded margarine or extolling the wonders of package holidays in Spain switched to endorsing the sawn-off shotgun or the wonders of the protection racket, and was then shown to benefit from such behaviour. For the long term stability of society it is almost certainly better that myths and fairy-stories should (generally) depict the white hats being able to defeat the black.

When *The Fear* arrived there were grounds for suspecting that it might be stepping outside this convention. The series is produced by Euston Films, the Thames TV subsidiary which brought us *Minder* and *The Sweeney*. Neither of those was quite as clear-cut in its morality as *Hopalong Cassidy* or *Dixon*: Arthur Daley was a spiv operating on the murky margins of the law, and Jack Regan was one of those rogue cops who would step outside the law and wear a black hat for a while if that was the only way to beat the crooks. Yet neither *Minder* nor *The Sweeney* ever gave the impression that their creators were at all confused about right and wrong.

The same could not be said about a subsequent Euston series called *Widows* which seemed thoroughly confused. The central characters were women, it is fashionable to regard women as victims, and *Widows* gave the impression that because they were female these violent criminals were not really to blame for their crimes. The author gave the game away by declaring: "Morally these women were not criminals."

Euston's next series, *Prospects* was less extreme but still morally equivocal: two young men living on their wits in London's docklands tended to overstep the legal boundaries in their enthusiasm for the enterprise economy. Notions of right and wrong scarcely seemed to enter into this series; it was amoral rather than immoral.

The Fear came to us in direct line of succession from this collection of morally ambivalent works and, as so often with television (*The Monocled Mutineer* was a classic example) much of the misunderstanding was caused by the written promotion. Gang leader Carl Galton, we were told, was "young, stylish, powerful, and ruthless . . . many would be proud of his enterprise – if it wasn't for his trade . . . Designer cars, designer clothes . . . meet the designer gangster."

The opening stages of the story appeared to bear out this breathless and silly approach. It really did seem as though the cold-eyed, thin-lipped good looks of Iain Glen (so much more impressive here than in Stoppard's new play, *Hapgood* and his cars and clothes – in other words his image – constituted the chief concern.

There is nothing new of course about glamorising the criminal: Carl's scarlet Porsche and Armani suit are no different from Scarface's Studebaker and Raffles' dinner jacket. (Incidentally it would be interesting to know what Lord Willis thinks about the morality of the Raffles tales since the amateur cracksman was allowed to get away with his crimes . . . but then he was a cricketer and a gentleman).

Nor is there anything new about drama placing the criminal at the centre of attention, and even excluding the forces of law and order altogether; nor anything new about turning the villain into the hero (think of *Rififi* for instance) though it is certainly unusual on television, and especially in peak viewing time.

But as this story began to develop – as Carl's boyhood lieutenant Marty first deserted his old leader and then revealed his homosexuality; as Carl's wife (played with astonishing assurance by the strikingly good looking Susannah Harker who has left drama school to take this rôle) searched for affection rather than the pedestal thrust beneath her by Carl; as the true nature of the criminal empire which Carl wanted to conquer became apparent – so the viewer began to suspect that Nemesis was stalking this young man just as surely as she had stalked so many like him, down all the centuries of story telling.

Susannah Harker and Iain Glenn in "The Fear"

It would seem ridiculous, because wholly unrealistic, to say that television should never be allowed to suggest (except in comedy) that crime pays. But if after the moral morass of *Widows* and *Prospects* crime was shown to pay in *The Fear* then there might indeed have been grounds for Ted Willis's apprehension about a "subtle sociological change" taking place. However, it is not giving very much away to say that in the resolution of *The Fear* tonight we learn, as we have learned so often before, not least from Lord Willis himself, that he who lives by the gun is likely to perish by it.

The Fear is not the best crime series ever shown on television, but anybody watching all five episodes would surely have to conclude that it is among the most gripping and memorable. The public images of the series seems to me to be, ironically, wrong in two respects. First the supposedly sinister parallel drawn between the ruthlessness of today's enterprise culture and the ruthlessness of crime is far from original: the point has been made endlessly and everywhere, from Brecht to Warner Brothers.

Secondly the idea that *The Fear* showed an awful lot of violence is wrong: it actually depicted surprisingly little. True, the entire serial was shot through with the *spirit* of violence and with a perpetually threatening atmosphere, but most of the "actual" violence occurred offstage, as in classical Greek drama. This, presumably, is a response to the tough attitude now being taken by pressure groups, television authorities, and government. The producers of *The Fear* might justifiably feel a little bitter at still being blamed for what is not in the series.

They might feel somewhat miffed, too, at not being praised for what is there: a bleak record of what happens to society when old fashioned masculine values have absolute dominance, as in this criminal subculture. It is that, in the end, which receives more detailed attention than anything else in *The Fear*, including the precise nature of the crime involved, which has never been very clear.

There are dreadfully few series compelling enough to make me watch every episode, but *The Fear* was one such, and passing judgement after the first episode alone was premature.

Kostas Paskalis and Grace Bumbry

Tosca/Covent Garden

Richard Fairman

There are some performances which convince you that *Tosca* is not the "shabby little shocker" it is often made out to be. This is decisively not one of them, but at least the Royal Opera seems to have come to the conclusion that if they are going to leave it as melodrama pure and simple, then they will give us a leading lady who can deliver it in right, royal style.

The present revival marks the welcome return of Grace Bumbry in the title-role, and the 25th anniversary of her first appearance at the house. It is astonishing to look back and consider that her debut here actually precedes the Zeffirelli production of *Tosca* (1964) by a year. In neither are the signs of wear and tear easily papered over, but Bumbry is still a formidable personality on stage and the voice remains an exciting, if rather wilful, instrument.

Indeed, from the first lines it is striking just how much voice there is: this is a real dramatic soprano, in the sense that she inflects the words with immense *grandezza*, and one realises how far, in this area, other current Toscas fall short. The top notes may be thin and sound as if they are being flung into a distant area against their will, but the rest of the voice compensates with its aggressive, cutting attack.

Among recent exponents of the role here she is perhaps closest to Vishnevskaya: a proud and imperious Tosca, much given to striking posed positions. There is little opportunity for the other singers to make contact with this old-fashioned sort of performance and that was unfortunate for Kostas Paskalis, who has lost his old authority as Scarpia and was struggling to get the voice across the footlights. Time has dealt with him less kindly.

As Cavaradossi, Giuseppe Giacomini offers little glamour in the voice, but his singing is clean and true. In neither of his arias were James Lockhart and the orchestra with him, but that unfortunately was symptomatic of the whole evening: in a Puccini opera the rubato is so endemic that it is crucial all the performers should feel it together, whereas here each was left to go his or her own way. Perhaps the ensemble will improve later.

A rash of over-acting among the lesser roles (which afflicted Paskalis in an unduly gruesome death scene) also suggested lax control over dramatic preparation. Eric Garrett's Sacristan was a particular culprit. Unless revivals are treated with more consideration than this, there will be calls for the production to go, and then we shall be deprived of a *Tosca* whose visual elegance and historical importance are too good to lose.

Marcantonio Barone/Wigmore Hall

Andrew Clements

Between his first appearance at the Wigmore Hall a year ago and his return on Monday evening Marcantonio Barone has appeared in the final of the Leeds Piano Competition. He was placed sixth, and Dominic Gill's report of the competition on this page suggested a considerable injustice, indeed that Barone should have been the "indisputable second prizewinner." In that final he played Rakhmaninov (the Paganini Rhapsody), and it was with the same composer that he made a strong impression on his London debut in 1987.

On this occasion, however, he began his programme with Beethoven and the combination of unrestrained forcefulness – suggesting a failure to appreciate the scale of the hall, something which persisted throughout the recital – and grandiloquent posturing suited neither the Op.77 Fantasy nor the F sharp major Sonata Op.78 with which he followed it. The shape of the first work escaped Barone entirely until the closing pages, and he too often relied upon an almost Lisztian recitando approach; the sonata's first movement similarly lost its way. Glimmers of more perception attended the four mazurkas of Chopin's Op.24 set, though even here bright primary colours were forced to serve where pastels and greys would have been more appropriate, and they set the stage for a turbulent and undeniably exciting account of the C sharp minor Scherzo Op.39, so physically immediate and intensely wrought one forgave its almost complete lack of compensatory warmth and humanity.

With such playing, and in his performances, the first in London, of Ulysses Kay's Two Impromptus of 1986, both nimble and effective explorations of the piano techniques of the first half of this century, Barone gave a taste of the unbuttoned style, heartily romantic, which evidently suits him best. It emerged too in Musorgsky's *Pictures from an Exhibition*, though not as consistently as might have been expected. "Bydlo," the "Ballet of the Chicks" and "Baba Yaga" were predictably vivid, but other movements were decisively undercharacterised, and the finale, overloaded with rhetorical pauses, became merely vacuous.

Goldoni & Pirandello/Milan, Rome

William Weaver

One of the most important and fertile developments in the Italian theatre recently has been the rise of the regional organizations. They were established in various parts of the country, originally to foster productions and build audiences locally; but now – through programmes of frequent exchange – they have become a vital part of the cultural scene throughout the nation. Thus the staging of Pirandello's complex, elusive masterpiece, *Questa sera si recita a soggetto*, first mounted last season in Trieste by the Teatro Stabile of the Friuli-Venezia Giulia region, is currently touring all over Italy. I caught up with it in Milan, before it left for Tuscany.

The play (its title is usually translated *Tonight We Improvise*) belongs to the trio of works Pirandello wrote about the mystery, the paradox of acting and enacting, the works called his "theatre of the theatre." The most famous of the trilogy – and of Pirandello's whole oeuvre – is *Six Characters in Search of an Author*. This was produced by the Trieste group a couple of seasons back. The third – and least-known – is *Ciascuno a suo modo* (*Each in his own way*), which will be staged next year. And then all three plays will be presented seriatim: an ambitious, even noble project, which only a subsidized organization could conceive and execute.

The project is in the hands of an eminent man of the theatre himself, Giuseppe Patroni Griffi, author of several successful plays, director of films, operas, and a whole theatrical range from Goldoni to the new Americans. In *Tonight We Improvise* he takes liberties (the action is shifted from a provincial Sicilian city to an unspecified Mittel-Europa), but his eye is clearly on the more basic goal: the creation of a theatrical experience. This he achieves thanks also to a first-rate and, for the most part, coherent cast. It was introduced by the splendidly hammy Mariano Rigillo, as the loquacious, domineering, temperamental producer Hinkfuss. The rebellion of the "actors" and the "audience" against his unconventional notions was one of the many tensions of the play.

There was tension, too, in the performance of the Ilaria Occhini as the termagant wife; this lovely actress, usually confined to sweet, long-suffering parts, there triumphs, as does the Neapolitan comedian Vittorio Caprioli as the hen-pecked, doomed husband. The crucial ingénue role of Mommina was played by the promising young Laura Marinoni, who looked and moved appropriately; only in her taxing final scene, she failed – partly because of sheer lack of voice – to extract all the pathos. The rest of the cast was perfectly attuned, as were Aldo Terlizzi's essential sets and Gabriella Pescucci's subtle costumes.

Pirandello represents one column of the Italian repertory; Goldoni is the other. This season an Umbrian regional organization is presenting the 18th century Venetian writer's *La serva amorosa* in an original and convincing production by Luca Ronconi. An uneven artist, Ronconi tends to treat audiences cruelly and, sometimes, he treats texts even more cruelly. In this case, while he demonstrated real feeling and respect for Goldoni, he made the audience stay in the theatre for four solid hours. But it was worth it; for once, the sedate pace seemed right.

The complex story of marital strife, of marriages arranged or desired or badly combined, played itself ont naturally, in subtle, elemental sets by Pietro Paganelli, with credible anti-traditional costumes by Giovanna Buzzi, and suitably crepuscular lighting by Sergio Rossi. Except for the diametrically miscast veteran Annamaria Guarnieri as the loving soubrette-maid of the title, the actors were excellently chosen, from the litigant couple Paola Bacco and Franco Mezzeri to the grotesque "maschere" Arlecchino and Brighella (Giancarlo Prati and Elio Veller). Ronconi's staging provoked laughter, but we laughed more at human foibles than at mere clowning.

Another official theatre, the "Stabile" of Genoa is touring a carefully thought-out, but more traditional – not to say conventional – Goldoni. Marco Sciaccaluga's *La putta onorata* is the Goldoni we know: heavy local colour, loud japes, and a fast pace (the characters seem to make most of their entrances and exits running). There are some fine performances (Ferruccio De Ceresa as Panatalone, Ugo Maria Morosi as Lelio, and Elisabetta Pozzi as the respectable girl of the title); but after Ronconi's pensive work, this Goldoni seems, finally, mannered and (maybe it's the running) tired.

Pauk and Gothoni/Radio 3

David Murray

It is easy to write modern music that's difficult to play, much harder to compose stuff that virtuoso soloists can get their teeth and claws into with real effect. Witold Lutoslawski is one of the few composers who can do that – again and again: he must have commissions enough to outlast his life – without sacrificing serious invention. His recent Partita for violin and piano, with which György Pauk and Ralf Gothoni ended their BBC lunchtime concert from Smith Square on Monday, is another gleaming product in that line.

Not for the first time, the dense main sections of the piece are separated by *ad lib* interludes, testing the players' imaginations a bit while relaxing. The main demands are severe, from the opening mock percussion-toccata to the furious finale in compound triplets, with a swingeing neo-romantic middle movement which is baleful and parodistic by turns. Pauk and Gothoni were of course fully equal to everything: it will be interesting to hear, as the Partita goes the rounds (virtuosi will take it up eagerly), how many other performers can match their panache.

In the rest of their typically ingenious programme they offered Janácek's Sonata, warm and ruminative where a month ago Kremer and Argerich blazed. That note of desperate protest has a place in the music (begun in 1913, the Sonata initiated the now familiar East European "The Russians are coming!" genre), but as pure chamber-composition it made excellent sense in St. John's. This time the Russian coming was only Prokofiev, whose op. 35 "Mélodies" are ingratiating as could be – folk-tuneful and decorative, with brighter Prokofiev twists reserved for the last two pieces (of five). In their original form these were all vocalises, and Pauk sang them sweetly. Gothoni made the brittler piano-writing crackle.

Arts Guide

March 11-17

Theatre

NEW YORK

Fences (46th Street). August Wilson hit a home-run, this year's Pulitzer Prize, with James Earle Jones taking the powerful lead role of an old baseball player raising a family in an industrial city in the 1950s, trying to improve their lot but dogged by his own failings. (221 1211).

Cats (Winter Garden). Still a sellout, Trevor Nunn's production of T.S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline. (239 6262).

42nd Street (Majestic). An immodest celebration of the heyday of Broadway in the 1930s incorporates gems from the original film, like Shuffle Off To Buffalo, with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

A Chorus Line (Shubert). The longest running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

Phantom of the Opera. The Majestic Theatre, stuffed with the Maria Bjornson gilded sets, rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London. (239 6200).

Les Miserables (Broadway). Led by Colm Wilkinson repeating his West End role as Jean Valjean, the magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama, if not strict adherence to its original source. (239 6200).

Starlight Express (Gershwin). Those who saw the original at the Victoria in London will barely recognise its American incarnation: the skaters do not have to go round the whole theatre but do get good exercise in the spruced-up stage with new bridges and American scenery to distract from the hackneyed pop music and trumped-up silly plot. (586 6510).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. But it has proved to be a durable Broadway hit with its marvellous lead role for an agile, engaging and deft actor preferably British. (947 0033).

WASHINGTON

Mail (Eisenhower). A Broadway-bound musical delivers the post that accumulates and comes to life for a New York teacher after his escape to the mountains of Vermont. Ends March 30. (254 3670).

CHICAGO

Landscape of the Body (Goodman). John Guare's 1977 surrealistic view of an American family, combining mystery, murder and lyrical passages features Amy Elizabeth Geis, Ray Bradford and Gary Cole in Robert Falls' production. (443 3800). Ends April 2.

TOKYO

Me and My Gal (Takarazuka Theatre). Thirties musical, recently revived successfully in London and New York and performed here in Japanese by an all-girl cast. Takarazuka therefore represents the other side of the coin to all-male Kabuki. (201 7777)

Yamato Takeru (Shinbashi Enbujo). This staggeringly successful super-kabuki production by kabuki's greatest showman, Ichikawa Ennosuke, has already broken all the records that a new show can possibly break in Japan. The story is based on one of Japan's oldest legends but it is less important than the extrovert and highly theatrical bag of tricks that Ennosuke has concocted to make kabuki more appealing to a generation reared on rock music and action movies. (541 2211).

Kabuki (Kabuki-za). For kabuki of a more traditional kind Kabuki-za is the place to go. It celebrates its 100th anniversary this year and this month features Kana Dehon Chushingura. In two parts, at 11am and 4pm. (541 3131).

Big River (Aoyama Theatre). Musical version of Huckleberry Finn. Jim is played by Ron Richardson, from the Broadway production, who has learnt Japanese for his role. (797 5678)

LONDON

The Best of Friends (Apollo). John Gielgud makes probably his last appearance on the London stage as Sir Sydney Cockerell, a museum curator and friend of Shaw (Ray McAnally) and a remarkable abbess (Rosemary Harris). (437 2663, CC 434 3598)

South Pacific (Prince of Wales). Average, traditional revival of the great Rodgers and Hammerstein musical, Gemma Craven failing to wash the baritonal Emile Belcourt out of her hair.

Shirley Valentine (Vaudeville). Pauline Collins in fine and funny monodrama by Willy Russell of liberation for a Liverpool housewife on Corfu. Shades of Ibsen's Nora and Beckett's Winnie, with jokes. (836 9987, CC 379 4444)

The Phantom of the Opera (Her Majesty's). Spectacular emotionally nourishing musical by Andrew Lloyd Webber. (839 2244, CC379 6131/ 340 7200).

Follies (Shaftesbury). Stunning revival, directed by Mike Ockrent and designed by Maria Bjornson, of Sondheim's 1971 musical in which poisoned marriages nearly undermine an old burlesque reunion in a doomed theatre. (379 5399).

Serious Money (Wyndham's). Transfer from Royal Court of Caryl Churchill's slick City comedy for champagne-swilling yuppies: how the Big Bang led to class tumult and barrow-boy dealings on the Stock Exchange. (836 3028, CC 379 6565).

AMSTERDAM

Emerald City (Bellevue Theatre). The English-Speaking Theatre Company in David Williamson's play, a fast-moving commentary on life in Sydney's media jungle to celebrate the Australian bicentenary. (Fri, Sat, Tue to Thur). (24 72 48).

MOSCOW

Uncle Vanya (Nissei Theatre). Moscow Art Theatre performs Chekhov's play in Russian. After a period of stagnation, the company founded by Stanislavsky and Nemirovich-Danchenko in 1898 is said to be undergoing something of an artistic renaissance under glasnost. (591 1906). Ends March 20.

Saleroom/Antony Thorncroft

A botanical boom

The person at Christie's who suggested devoting a sale to botanical drawings and watercolours deserves a handsome bonus. The auction, which consisted mainly of late 18th and early 19th century plant studies by gifted but largely unknown amateur botanists, totalled £213,658, with just one per cent unsold.

Some of the prices were quite extraordinary for illustrations which have traditionally been consigned to bedrooms and back stairways. Not least surprising was the £19,800 paid by a private bidder for a study of an auricula in a pot by Mrs Augusta Withers who was Flower-painter-in-ordinary to Queen Adelaide and later to Queen Victoria. The top estimate had been £5,000. Another Withers watercolour, of an orchid, went to the London book dealer Hayward Hill for £15,400.

Hayward Hill was a busy buyer, acquiring most of the lots produced by the little known Mrs E. Powell. One of her studies of an orchid went to the dealer for £8,250 (top estimate £1,200). Two studies of carnations, drawn in Germany around 1700, sold for £4,620 but much more remarkable was the price of £4,400 which secured a study of a daisy by Joseph Perry: it had been estimated to fetch between £300-£400.

In another saleroom innovation Sotheby's now isolates its 19th century ceramics from the earlier stuff and did well out of the change yesterday. Demand for the output of the Worcester factory was particularly strong. A Royal Worcester vase and cover of around 1906, by George Owen, doubled its top estimate at £10,450 and a pair of Royal Worcestar ewers of the same period, painted by W.A.Hawkins, did even better, trebling forecast at £9,350.

The dealer Hyde Park Antiques paid £7,700 for some much earlier Worcester, a Barr Flight and Barr vase and cover of around 1810, and £6,600 for a pair of Herculaneum griffin candlesticks, also Worcester Regency, which had a top estimate of £1,500.

A pair of Barr, Flight and Barr saucer dishes of around 1810, almost quadrupled forecast at £7,150 and the same sum secured a large pair of Minton "majolica" umbrella stands madearound 1875.

There is a strong Indian tinge to sales in May. On the 10th Harmers of London is offering India's rarest stamp, an 1854 four anna with the head of Queen Victoria inverted. It should make £40,000. Only three examples of the error are known. The stamp was discovered in a New Zealand school girl's collection and sold for £725 at Harmers in 1954.

At Christie's in Geneva on May 12th jewels of the late Aga Khan III will be sold to raise money for the Bellerive Foundation, which promotes humanitarian causes. A top price of £500,000 plus is anticipated for an "E flawless" pear shaped diamond of over 33 carats.

THE BUDGET: The Chancellor's Speech

Discipline of balanced Budget to become goal for future

I am reliably informed that my Budget speech last year was the shortest this century. My Budget speech this year is likely to have a different claim to a place in the history books. Not, the House will be glad to learn, as the longest Budget speech this century, but as the last untelevised Budget speech.

As I once again present the first Budget of a new Parliament, the British economy is stronger than at any time since the War. As the British people recognised last June, this has not happened by chance. It has happened because, for almost nine years now, we have followed the right policies and stuck to them. I reaffirm those policies today. In particular, there will be no letting up in our determination to defeat inflation.

I shall begin, as usual, with the economic background to the Budget. I shall then deal with monetary policy, and with the public finances this year and next, and indeed for the remainder of this Parliament. Finally, I shall propose a number of measures designed to improve the performance of the economy still further, by changing the structure of taxation. For this will be a tax reform Budget. As usual, the Financial Statement and Budget Report, together with a number of press releases filling out the details of my tax proposals, will be available from the Vote Office as soon as I have sat down.

I start with the economic background. The strength and durability of the economic upswing has now exceeded all post-War records. We are about to enter our eighth successive year of sustained growth, and the sixth in which this has been combined with low inflation. And even without looking to 1988, the six years to 1987 have been the longest period of steady growth, at a rate averaging 3 per cent a year, for half a century.

This performance compares favourably not only with our own past, but also with the economic performance of other countries. During the 1960s and the 1970s, Britain's growth rate was the lowest of all the major European economies. During the 1980s, our growth rate has been the highest of all the major European economies. In 1987 as a whole, output grew by getting on for 4½ per cent, rather more than the rate of inflation which averaged 4.2 per cent. At the same time unemployment fell faster than in any other year since the War, in every region of the country, and more than in any other major nation.

Transformed economy

The plain fact is that the British economy has been transformed. Prudent financial policies have given business and industry the confidence to expand, while supply side reforms have progressively removed the barriers to enterprise. Nowhere has this transformation been more marked than in manufacturing, where output rose last year by 5½ per cent. This outstanding performance was founded on a further big improvement in productivity.

In the 1980s, output per head in manufacturing has gone up faster in Britain than in any other major industrial country, and we led the way once again last year. This is in stark contrast to the 1960s and 1970s, when in the growth of manufacturing productivity, as in so much else, we were bottom of the league.

The current account of the balance of payments is now estimated to have been in deficit last year by a little over £1½ billion, after seven successive years of surplus. This is well below the deficit I forecast at the time of last year's Budget, despite growth turning out stronger than forecast. The reason for the smaller deficit was the better than expected performance of visible trade, with exports of manufactures up by 8½ per cent. This continues the pattern of the 1980s, with British manufacturers maintaining their share of an expanding world trade – the crucial test of competitiveness – after decades during which Britain's share was steadily declining.

Looking ahead, I expect 1988 to be yet another year of healthy growth with low inflation; and there is every prospect that unemployment will continue to fall, although probably not as rapidly as last year. The pace of non-oil growth is likely to ease from now on, returning to the underlying trend of the past few years. Output for 1988 as a whole is forecast to be 3 per cent higher than in 1987, with the non-oil economy up by 3¾ per cent. Business investment is forecast to grow particularly strongly, with a rise of 9 per cent.

4% inflation forecast

As last year, inflation is forecast to end the year at 4 per cent. While this is still too high, it is a testimony to the soundness of our policies that the present strong and sustained upswing, unlike almost all its predecessors, has not led to a resurgence of inflation. With growth in the UK economy likely to continue to outpace that of most other major countries, particularly in continental Europe, and with our oil surplus falling as North Sea oil production declines, the current account of the balance of payments is forecast to remain in deficit this year, by some £4 billion, equivalent to less than one per cent of GDP.

Given the strength of the economy in general, and of our public finances in particular, not to mention our massive net overseas assets, I foresee no difficulty in financing a temporary current account deficit of this scale. But the outlook both for exports and for jobs will depend critically on employers keeping their costs firmly under control. Unit labour costs in manufacturing scarcely rose at all in 1987. It is vital that employers do not let this slip, and keep a tight grip on all their costs, not least pay.

In my Budget speech last year, I warned that: "Given the continuation of present policies in this country, the biggest risk to the excellent prospect I have outlined is that of a downturn in the world economy as a whole." That remains the case.

Black Monday 'a warning'

The dramatic collapse in the world's equity markets last October was not the second coming of 1929 or the harbinger of a 1930s-style world slump, as so many feared at the time – although it could have been a great deal nastier had the authorities in the major nations not responded in a prompt and appropriate way. It was essentially an overdue market correction which did little more than reverse the rapid rise in share prices of the previous year. Certainly, business confidence does not seem to have been greatly affected, and growth in the seven major industrial countries as a whole this year is likely to be only slightly lower than last year.

But Black Monday was also a warning. The world's three largest economies – the United States, Japan and Germany – have made a number of the policy adjustments necessary to reduce the imbalances which have for so long afflicted them, and there is evidence that the measures they have taken are starting to bear fruit. But there is still a long way to go; and meanwhile there is the constant danger that the process of adjustment, and with it the world economy as a whole, could be gravely damaged either by further wild gyrations in the dollar exchange rate or by a lurch into protectionism.

Success in reducing these imbalances depends on countries putting the right fiscal and monetary policies in place, and keeping them there. But the necessary adjustments are much more likely to be achieved if the objective of greater exchange rate stability is given an explicit role in the process of international co-operation, as has been the case for well over two years now. I can assure the House that we shall continue to play our full part.

Meanwhile, the maintenance of sound money and prudent public finances will keep us in the best possible position to weather any storms we may face, either at home or abroad.

Monetary discipline

The Medium-Term Financial Strategy, now entering its ninth year, will continue to provide the framework for reducing the growth of money GDP, and hence inflation, over the medium term. These will be achieved by maintaining firm monetary discipline, buttressed by a prudent fiscal stance. Achieving the gradual eradication of inflation requires a steady reduction in monetary growth in the medium term. While I shall continue to take account of broad money, or liquidity, as last year there will be no explicit target. For narrow money, M0, the target range for 1988-89 will be 1-5 per cent, as foreshadowed in last year's MTFS.

Short-term interest rates remain the essential instrument of monetary policy. Within a continuous and comprehensive assessment of monetary conditions, I will continue to set interest rates at the level necessary to ensure downward pressure on inflation. Exchange rates play a central role in domestic monetary decisions as well as in international policy co-operation. I believe that most businessmen have welcomed the greater exchange rate stability over the past year. It is important that they also accept the financial discipline inherent in this policy.

As I pointed out a moment ago, a sound monetary policy needs to be buttressed by a prudent fiscal stance. At one time, it was regarded as the hallmark of good government to maintain a balanced budget; to ensure that, in time of peace, government spending was fully financed by revenues from taxation, with no need for government borrowing. Over the years, this simple and beneficent rule was increasingly disregarded, culminating in the catastrophe of 1975-76, when the last Labour Government had a budget deficit, or Public Sector Borrowing Requirement, equivalent in today's terms to some £40 billion.

This profligacy not only brought economic disaster and the national humiliation of a bail-out by the IMF. It also added massively to the burden of debt interest, not merely now but for a generation to come.

Thus one of our main objectives, when we first took office in 1979, was to bring down government borrowing. We steadily reduced the Public Sector Borrowing Requirement from the 5½ per cent of GDP we inherited to only three quarters of one per cent in 1986-87. Today I am able to tell the House that in 1987-88, the year now ending, we are set to secure something previously achieved only on one isolated occasion since the beginning of the 1950s: a balanced budget.

On course for £3bn surplus

Indeed, we have gone even further. It looks as if the final outturn for 1987-88 will be a budget surplus of £3 billion. Instead of a PSBR, a PSDR; not a Public Sector Borrowing Requirement, but a Public Sector Debt Repayment. But, incidentally, even if there had been no privatisation proceeds at all, the resulting PSBR, at a half of one per cent of GDP, would still have been the lowest in all but one year since the beginning of the 'fifties.

Some two thirds of this substantial undershoot of the PSBR I set at the time of last year's Budget is the result of the increased tax revenues that have flowed from a buoyant economy; while the remaining third is due to lower than expected public expenditure, again the outcome of a buoyant economy: less in benefits for the unemployed, higher *receipts from council* house sales, and improved trading performance by the nationalised industries.

Zero PSBR to be the norm

A balanced budget is a valuable discipline for the medium term. It represents security for the present and an investment for the future. Having achieved it, I intend to stick to it. In other words, henceforth a zero PSBR will be the norm. This provides a clear and simple rule, with a good historical pedigree. In the very nature of things, there are bound to be fluctuations on either side from year to year. It is in this context that I have to set the precise fiscal stance for the year ahead, 1988-89.

I have already announced, in the Autumn Statement last November, a £2½ billion increase in public expenditure plans for 1988-89, with resources allocated to programmes up by over £4½ billion. This means that over the coming year we will be spending at least £1,100 million more on health than in the year now ending, at least £900 million more on education, and at least £500 million more on law and order.

These large increases in public expenditure programmes for the coming year will be financed partly from the saving in debt interest resulting from the reduction in Government borrowing. Debt interest payments now account for about three quarters of a percentage point less of GDP than they did only three years ago. This may not sound very much, but it implies a saving of some £3 billion a year. And the balanced budget path I have set out in this year's MTFS will help to reduce debt interest payments still further.

The Chancellor outside No 11 Downing Street before yesterday's Budget with his wife Thérèse, children Emily and Tom and pet King Charles spaniel, Tigger.

Chancellor Lawson: zero PSBR 'provides a clear and simple rule with a good historical pedigree'

We have thus secured an enviable virtuous circle in public finance: lower borrowing and lower tax rates create both the scope and the incentive for the private sector to expand. And the private sector then generates higher revenues which permit further reductions in borrowing or tax. But even so, the increased public spending now planned for *1988-89 inevitably implies less* scope for reducing taxation. Moreover, I have decided that for the year immediately ahead, the path of prudence and caution is to budget for a further surplus of the *same size as this year's* expected outturn – that is to say, a further public sector debt repayment of some £3 billion.

What this means is that it will not be possible in this Budget to reduce the burden of taxation; that is to say, to reduce taxation as a share of GDP. However, the House may be pleased to know that, with a strong and healthy economy, a constant burden of taxation implies a reduction in tax rates.

Tax rate reductions

I indicated at the outset that this will be a radical, tax-reforming Budget. Over the past few years there has been increasing recognition, throughout the *industrialised* world, of the importance of tax reform in improving economic performance. And for us in this country, the lesson is underlined by the success of the reform of business taxation I *announced in* my first Budget, at the start of the last Parliament.

But while tax reform is a simple matter for the armchair critic, it is very much more difficult in practice. It is difficult technically and difficult politically – since any tax system, however it arose, creates powerful vested interests in favour of the status quo. Nor, indeed, is it right that change should be too violent. People have a right to expect a reasonable degree of stability in the framework within which they order their affairs. But change there has to be. So the tax-reforming Chancellor must tread a careful path. And that I have sought to do in this Budget.

The proposals I shall be making today amount to a substantial and coherent package which will be of increasing benefit to the taxpayer and the economy as a whole in the years to come. I have been guided by four basic principles. First, the need to reduce tax rates where they are *clearly too high. Second, the need* to reduce or abolish unwarranted tax breaks. Third, the need to make life a little simpler for the taxpayer. And, fourth, the need to remove some manifest injustices from the system.

Married couples' tax reform

My first reform concerns the taxation of marriage. The present system for the taxation of married couples goes back 180 years. It taxes the income of a married woman as if it belonged to her husband. Quite simply, that is no longer acceptable. This is a matter on which there has already been extensive consultation. The time has come to take action.

I therefore propose a major reform of personal taxation, with two objectives. First, to give married women the same privacy and independence in their tax affairs as everyone else. And second, to bring to an end the ways in which the tax system can penal*ise marriage. I have decided to* introduce, at the earliest practicable date, April 1990, a completely new system of independent taxation. Under this new system, a husband and wife will *be taxed independently*, on income of all kinds. All taxpayers, male or female, married or single, will be entitled to the same personal allowance, which will be available against all income, whether from earnings, pensions or savings.

In addition, there will be a married couple's allowance, equal to the difference under the present system between the married man's allowance and the single allowance. This new allowance will go in the first instance to the husband, so that his tax threshold does not fall. But if he does not have enough income to use it in full, he will be able to transfer any unused portion to his wife, to set against her income. This ensures that the tax system will continue to recognise marriage, as it should do. At the same time, from 1990 married women will pay their own tax, on the basis of their own income, and have their own tax return, when one is necessary.

There will, of course, be nothing to stop married women from asking their husbands to handle their tax affairs, or vice versa, as before; and many will no doubt do so. But what matters is that, for the first time ever, married women will have the right to complete independence and privacy so far as tax is concerned. In the same way, a husband and wife will be taxed independently on any capital gains they may have, with an annual exemption *each*, instead of *one* between them, as now. But transfers of capital between husband and wife will continue to be entirely free of any liability to tax.

As I have said, the new system will come into force in 1990. This is much sooner than would have been possible for most of the alternatives that have been canvassed. The necessary legislation will be contained in this year's Finance Bill. The cost of this historic reform, which for the first time ever gives a fair deal to married women, will be a little over £½ billion in 1990-91.

I mentioned a few moments ago the tax penalties on marriage. It is clearly wrong that some couples should find themselves paying more tax, simply because they are married. I propose to put that right. Independent taxation by itself will remove the most common penalty – the taxation of a married woman's income at her husband's marginal rate. But there are other tax penalties on marriage, and I propose to abolish all of them. These changes need not await the introduction of Independent Taxation.

Alterations in mortgage relief

Under the present system an unmarried couple can get twice as much mortgage interest relief as a married couple. This has attracted increasing – and justified – criticism. I propose to put a stop to it as from August this year. Thereafter, the £30,000 limit on mortgage interest relief will be related to the house or flat, irrespective of the number of borrowers. This was the solution put forward in the 1986 Green Paper on Personal Taxation, and it was widely welcomed. Existing mortgages will be unaffected.

Another anomaly is that an *unmarried couple* with children can each claim the Additional Personal Allowance intended for single parents, and thus get more tax relief than a married couple in the same position. I propose to confine them to a single Additional Personal Allowance, with effect from April 1989. Thus this Budget will not only, for the first time ever, give married women a fair deal from the tax system. It will also eliminate, for all practical purposes, all the other tax penalties which, under the present system, can arise on marriage.

I turn now to business taxation. The major reform of business taxation, which I introduced in 1984, and which was completed in 1986, has given us one of the lowest Corporation Tax rates in the world. This has encouraged overseas companies to invest in Britain and, most important of all, has greatly improved the quality of investment by British firms. It is a crucial part of an environment in which company profitability has recovered to its highest level for some twenty years. It has succeeded in its objectives. I do not therefore propose any further changes to the structure of Corporation Tax. And the main Corporation Tax *rate for 1988-89 will be unchanged* at 35 per cent. But I do have some changes to propose to specific aspects of business taxation.

British exporters have done extremely *well* in recent years, thanks to major improvements in efficiency and quality.

But no exporter could honestly claim that his success hinges on the fact that the cost of entertaining *overseas customers is* tax deductible, whereas business entertainment generally is not.

I therefore propose to simplify the system by making all business entertainment non-deductible *for tax purposes, including* for VAT.

North Sea oil tax moves

In conjunction with my Rt. Hon. friend the Secretary of State for Energy, I propose to restructure the tax regime for the new generation of Southern basin and onshore fields, so as to relate tax liability more closely to profitability.

Accordingly, my Rt Hon Friend will shortly be bringing forward legislation to abolish royalties, *from* 1 July, *for all such fields*.

At the same time, I propose to reduce the Petroleum Revenue Tax oil allowance for these fields.

This will mean the end of royalties for all future fields.

Building societies

The 1986 Building Societies Act gives building societies the power to convert themselves into companies, if they so wish. At present, however, they would face a heavy, and unintended, tax charge if they did so.

I propose to rectify this.

Proposals for Lloyd's

I have two changes to propose to the tax arrangements for Lloyd's.

The first meets the only point Lloyd's have raised on last year's legislation on reinsurance to close.

The second will benefit both Lloyd's and the Inland Revenue by simplifying the administrative arrangements for taxing Lloyd's members.

Company migration

I also propose to simplify the Section 482 rules for companies who wish to migrate overseas, so as to bring these rules broadly into line with most of our major competitors.

In future, companies will be resident in the UK if they are incorporated here.

Subject to that, instead of having to ask for Treasury consent, companies will be free to migrate, provided only that they pay their tax first.

Small and new businesses

I now turn to a number of proposals to give further help to small businesses and new businesses, whose encouragement is a central theme of Government policy. Since 1979, the rate of new business formation, net of failures, has averaged 500 a week.

This shows beyond any doubt the continuing vigour of this sector, which is such an important source of enterprise, innovation, and of new jobs.

Many new businesses have been greatly assisted by the Business Expansion Scheme, which has now been running for nearly five years.

During that time it has enabled new and expanding *companies to* raise equity finance amounting to some £150m a year.

However, the rapid growth of the venture capital market since 1983 has meant that companies seeking relatively large amounts of equity investment can now raise these readily, while smaller companies looking for more modest amounts can still find it difficult to do so.

£½m limit on BES

To improve the targeting of the BES, I therefore propose to introduce a limit of £½m on the amount any company can raise under the scheme in any one year.

Investment should thus be better *directed at the smaller and* newer businesses, particularly those outside the South-east of England, which can still find it hard to raise equity finance in other ways.

In the special circumstances of the ship chartering industry, however, the limit will be £5m.

I have one further proposal affecting the Business Expansion Scheme.

One of the key *reasons* for our economic transformation has been the reform of the supply side of the economy.

The tax relief I introduced last year for profit-related pay will, in time, help to increase pay flexibility and improve the working of the labour market.

But if successful firms are to expand further, and create still more jobs, we also have to make it easier for people to move to where the new jobs are.

Private renting incentives

For years, the shortage of private rented accommodation has been an obstacle to labour mobility.

The Government's proposals to deregulate new rents are already going through the House and deregulation will, over time, substantially increase the supply of housing for rent.

But this will not happen overnight, and there is a case for a special incentive to speed up the process in the early years.

I therefore propose to extend the Business Expansion Scheme to include companies specialising in the letting of residential property on the new assured tenancy basis.

The BES is well suited to this task.

Since full tax relief is given immediately, it should bring forward new investment straight away.

And we will be building on success. The limit for this type of investment will be £5m a year for *any one company*.

Since the relief is specifically designed to provide an extra stimulus in the early years of deregulation, it will run only for investments made before the end *of* 1993.

This change will powerfully reinforce the impact of decontrol in reviving the private rented sector of housing in Britain.

Capital gains relief extended

In last year's Budget I raised the ceiling for capital gains tax retirement relief from £100,000 of gain to £125,000.

But I believe it is necessary to do more to help the small businessman whose wealth is tied up in his business and who is faced with the disincentive of a heavy capital gains tax bill when he sells up on retirement.

I therefore propose to extend capital gains tax retirement relief so that, on top of the exemption, half of any gain between £125,000 and £500,000 will also be completely free of tax.

While on the subject of capital gains tax, I propose to extend rollover relief to a group of assets whose common characteristic is that they barely existed when the present list of qualifying assets was drawn up.

They are milk quotas, potato quotas, satellites and spacecraft.

Mr Deputy Speaker, I know that this will be warmly welcomed in the farming and extraterrestrial communities alike.

VAT threshold up to £22,100

Lastly, on the small business front, I propose to increase the VAT threshold to £22,100, the maximum permitted under existing European Community Law.

Throughout my time as Chancellor, I have been on the lookout for taxes to abolish.

Abolition is clearly the simplest variety of reform.

I have already abolished the National Insurance surcharge, the Investment Income surcharge, Development Land Tax, and the tax on lifetime gifts.

At present, companies have to pay a Capital Duty of 1 per cent whenever they raise new capital – whenever, for example, a new company is formed or an existing company sells new shares to the public.

This is undesirable on two counts. It is a burden on companies who need to secure external finance for expansion. And it discriminates against equity capital as compared with debt finance and bank borrowing.

Capital Duty abolished

Capital Duty is a relatively recent impost which had to be introduced in 1973 in compliance with our obligations under European Community law. But the relevant Community Directive has now been amended. Accordingly, I propose to abolish Capital Duty with effect from midnight tonight.

At the same time, I propose to get rid of the Unit Trust Instrument Duty, a similar though much less substantial tax, which is levied at the rate of ¼ per cent on all assets put into a unit trust. I know the unit trust movement will welcome this minor relief, and I trust the benefit will be fully passed on to investors.

The cost of abolishing these two taxes will be of the order of £100m in 1988-89. Not counting minor imposts, the demise of Capital Duty brings the number of taxes I have abolished up to five: an average of one a Budget.

I now turn to an important area of personal taxation which is ripe for reform and simplification: the taxation of payments made under deeds of covenant and maintenance arrangements. Covenants to charity will be wholly unaffected by the changes I am about to propose.

Other covenants, and maintenance *arrangements*, are essentially ways of transferring income from one individual to another, usually from one member of a family to another, whether it is a parent or grand*parent covenanting* to a *child, or* a husband paying maintenance to an ex-wife. Most of the financial transfers that take place within families are rightly and properly outside the scope of the tax *system altogether*.

I propose, as far as is practicable, to take covenants and maintenance out as well. This will greatly simplify an unnecessarily complex part of the tax system.

First, covenants. Charitable covenants apart, I propose to take all new covenants made by individuals on or after today out of the tax system altogether. In other words, people receiving payments under covenants will not be liable to tax on them, and those making the payments will not be able to claim tax relief on them. The tax treatment of existing covenants will continue unchanged.

The largest single group of people affected by this change will be students, together with their parents, many of whom nowadays choose to make their contribution to the student maintenance grant by covenant. This has arisen as an unintended by-product of the reduction in 1970 of the legal age of majority from 21 to 18.

Past covenants stay in force

As I have already indicated, those who have already made such covenants will continue to benefit from tax relief. For new students, the parental contribution to the maintenance grant will be assessed on a new and more generous scale, to reflect the withdrawal of tax relief on new covenants. My rt hon Friends the Secretaries of State for Education and Science and for Scotland will be publishing the details tomorrow.

One desirable side-effect of this reform is that future students will no longer be deterred from taking vacation jobs because their covenant income has *already absorbed* their personal allowance.

(Continued on next page)

THE BUDGET: The Chancellor's Speech

Top rate of taxation pegged at the 40% level

Accordingly I propose to double the duty differentiasl in its favour by exempting unleaded petrol altogether from the duty increase I have just abnnounced.

No change on unleaded fuel

This means that, despite the higher production costs, the pnmp price of unleaded petrol should in future be below that of ordinary two-star petrol. I very much hope the petrol companies will now reinforce this concession by vigorously promoting the use of lead-free petrol.

I now turn to taxes on capital.The emergence of the capital-owning democracy has been one of the most remarkable features of the 1980s. Encouraged by Government policy, more than 2⅓m families have bought their homes, bringing the total to nearly two households in three. And our proposals for personal pensions, which come into effect in July, will give a new dimension to pension ownership.

But the most dramatic change has been to share ownership. In last year's Budget, I announced the results of a joint Treasury/Stock Exchange survey of the number of shareholders in this country. This revealed that some 8½m people – one adult to five – owned shares, about three times the number in 1979.

A similar survey has been carried out this year. Despite all the stories of people taking quick profits on privatisation shares, and despite the stock market collapse, the results show that the number of individual shareholders has if anything risen further over the past 12 months, to very nearly 9m. This illustrates in a quite remarkabla fashion how wider share ownership is now taking root. I have two proposals to encourage share ownership still further to announce today.

PEP limit up to £3,000

First, Personal Equity Plans are off to a successful start. Over a quarter of a million people took out PEPs in 1987, and subscribed nearly £½ bn between them. To give further encouragement to this form of investment, I propose to increase the annual limit from £2,400 to £3,000. The new higher limit will apply to all plans taken out this year.

Second, measures to encourage employee share ownership have featured in seven out of the last eight Budgets. As a result, the number of approved all-employee share schemes has risen from 30 in 1979 to over 1,400 today, involving well over 10,000 companies, and providing shares and options for well over 1½m employees.

Following extensive consultation, including the publication of draft clauses, I propose to relax the provisions of Section 79 of the 1972 Finance Act. This will make it easier for companies to provide shares to their employees outside the approved schemes without giving rise to an undue charge to tax. This will be of particular benefit to subsidiary companies and their employees.

Inheritance tax simplified

In previous Budgets I have already snbstantially reformed the taxation of capital, with the replacement of capital transfer tax by inheritance tax. Bnt I believe this process can and should be taken further. Last year, I reduced the number of inheritance tax rates from seven to four.

This year, I propose to simplify the tax still further by levying it at a flat rate of 40 per cent. At the same time I propose to raise the threshold from £90,000 to £110,000.The increase in the threshold will reduce the number of estates liable to tax by a quarter, allowing many more people to inherit the family home free of tax.

And the flat rate of 40 per cent means that for the family business, enjoying 50 per cent business relief, the effective rate of tax can never exceed 20 per cent, one of the lowest inheritance tax rates in the industrialised world. The cost of these changes will be £100m in 1988-89.

Lastly, capital gains tax. Strictly speaking, this should not be a tax on the original capital at all. Nor is it, so far as gains which have arisen since 1982 are concerned, thanks to the indexation provisions introduced by my predecessor in 1982, and extended in my 1985 Budget. But for gains that arose before 1982, the tax falls largely on purely paper profits resulting from the rampant inflation of the seventies. In other words, it bites deeply, and capriciously, into the capital itself.

This has long been recognised as manifestly unjust. Indeed, from the time I first entered this House I have argued that capital gains tax should fall only on real gains, and not on paper gains. I have therefore looked hard to see if the indexation provisions could be applied right back to the inception of the tax in 1965. Unfortunately, they cannot. The necessary information is in many cases no longer available.

Accordingly, I have decided to bring the base date for the tax forward from 1965 to 1982. That is to say, for all disposals on or after 6 April, that part of any capital gain which arose before April 1982 will be exempt from tax altogether, for individuals and companies alike.

This Budget thus ends once and for all the injustice of taxing purely inflationary gains. This will benefit the economy by unlocking assets which have been virtually sterilised because of the penal tax that would have arisen on any sale. And it will help many small businessmen and farmers in particular.

At present, the first £6,600 a year of capital gain is tax-free. The relatively high level of this threshold stems from the substantial increase my predecessor made in 1982, explicitly as rough and ready partial compensation for the continued taxation of pre-1982 paper gains.

Threshold for CGT reduced

Now that I have taken pre-1982 gains out of tax altogether, I propose to reduce the capital gains tax threshold to £5,000. It should also be borne in mind that, with the introduction of independent taxation in 1990, a husband and wife will each have their own threshold for capital gains tax as well as for income tax.

Rebasing the tax so as to prodnce a fully indexed system makes it possible to bring the taxation of gains closer to that of income. In principle, there is little economic difference between income and capital gains, and many people effectively have the option of choosing to a significant extent which to receive. And, insofar as there is a difference, it is by no means clear why one should be taxed more heavily than the other.

Taxing them at different rates distorts investment decisions and inevitably creates a major tax avoidance industry. Moreover, at present, with capital gains taxed at 30 per cent for everybody, higher rate taxpayers face a lower – sometimes much lower – rate of tax on gains than on investment income, while basic rate taxpayers face a higher rate of tax on gains than on income.

This contrast is hard to justify. I therefore propose a fundamental reform. Subject to the new base date, capital gains will continue to be worked out as now, with the present exemptions and reliefs. In particular, the principal private residence will remain tax-free. But the indexed gain will be taxed at the income tax rate that would apply if it were the taxpayer's marginal slice of income.

In other words, I propose in future to apply the same rate of tax to income and capital gains alike. These changes will not take effect until 6 April. Taxing capital gains at income tax rates makes for greater neutrality to the tax system. It is what we now do for companies. And it is also the practice to the United States, with the big difference that there they have neither indexation relief nor a separate capital gains tax threshold.

Ashley Ashwood

Treasury team behind the Budget – Mr Nigel Lawson, the Chancellor of the Exchequer (right foreground) with (from left) Mr Norman Lamont, Financial Secretary; Mr John Major, Chief Secretary; Mr Peter Brooke, Minister of State; and Mr Peter Lilley, Economic Secretary

The changes I have announced represent a thoroughgoing reform of capital gains tax which will benefit the economy and eradicate a major injustice. They will sharply reduce the damaging effects of the tax, while ensuring that capital gains remain properly taxed and the yield of income tax adequately protected. They are expected to cost a little over £200m in 1989-90.

Finally I turn to income tax. The way to a strong economy is in boost incentives and enterprise. And that means, among other things, keeping income tax as low as possible. Income tax has now been reduced in each of the last six Budgets - the first time this has ever occurred.

And the strength of the economy over that period speaks for itself. However, reforming income tax is not simply a matter of cutting the rates. I also have to look at all the various allowances and reliefs to ensure that they are still justified. With this in mind, I have a number of proposals to announce.

Woodlands tax change

First, forestry. I accept that the tax system should recognise the special characteristics of forestry, where it can take anything up to a hundred years between the costs of planting and the income from selling the felled timber. But the present system cannot be justified. It enables top rate taxpayers in particular to shelter other income from tax, by setting it against expenditure on forestry, while the proceeds from any eventual sale are effectively tax-free.

The time has come to bring it in an end. I propose to do so by the simple expedient of taking commercial woodlands out of the tocome tax system altogether. That is to say, as from today, and subject to transitional provisions, expenditure on commercial woodlands will no longer be allowed as a deduction for income tax and corporation tax. But, equally, receipts from the sale of trees or felled timber will no longer be liable to tax.

It is, perhaps, a measure of the absurdity of the present system that the total exemption of commercial woodlands from tax will, in time, actually increase tax revenues by over £10m a year.At the same time, in order to further the Government's objectives for the rural areas, I have agreed with my Rt Hon Friends who have responsibilities for forestry and the environment that, in parallel, there should be increases in planting grants. Full details of the new grant scheme will be announced next week.

The net effect of these changes will be to end an unacceptable form of tax shelter; to simplify the tax system, abolishing the archaic Schedule B in its entirety; and to enable the Government to secure its forestry objectives with proper regard for the environment, including a better balance between broad-leaved trees and conifers.

One of the legacies of the years of penal top tax rates is the complicated special relief for large redundancy payments. This is no longer justified. I propose to increase the exemption limit for these payments from £25,000 to £30,000, and to abolish the additional relief for larger amounts.

Next, benefits in kind – perhaps better known as perks. One of the biggest tax-induced distortions in the economy today is the growing tendency to provide remuneration in kind rather than in cash. It must be right to move towards a system of lower taxes all-round and fewer tax breaks of this kind.

Company car tax doubled

Far and away the most widespread benefit in kind is the company car, which is substantially undertaxed. Independent studies, based on figures supplied by the AA, suggest that an employee with a typical company car may be taxed on only about a quarter of its true value. This discrepancy is too great to be allowed to continue. On the other hand, the scale of the undertaxation is so great that it cannot be put right in a single year. But in a Budget when I am able to reduce tax rates, there is a strong case for a substantial increase to the taxation of these benefits. I therefore propose to double the car scales for 1988-89. This increase replaces the 10 per cent increase which I had already announced for 1988-89. The yield will be £260 million in 1988-89.

The scales for the taxation of car fuel adequately reflect the value of the benefit, and I propose to leave them unchanged for 1988-89. However, the taxation of the benefit of free car parking threatens to become an administrative nightmare. I propose to exempt this particular benefit from tax altogether.

Next, mortgage interest relief. This Government is committed to the further spread of home ownership. Mortgage toterest relief has an important role to play in achieving that aim. However, in addition to the decision to apply the £30,000 limit to the house or flat, which I have already announced, and which will remove the most widely-resented tax penalty on marriage, I have a further reform to propose in this area.

Relief on home improvements

This concerns the parallel tax relief for home improvement loans. Most of these loans are for fittings such as double glazing, and have played a significant part in the recent growth of consumer credit without in any way contributing to the expansion of home ownership. This may be partly due to the substantial scope for abuse, as loans ostensibly taken out for home improvements are used for other purposes, a matter which was the subject of a recent report from the Public Accounts Committee. I propose, therefore, to end tax relief for all new home improvement loans taken out after 5 April. Existing home improvement loans will be unaffected. This is expected to yield £80 million to 1988-89.

Finally, I turn to income tax itself. The statutory indexation formula means that I should increase all the principal income tax allowances and bands by the increase to the RPI over the year to last December, or 3.7 per cent, rounded up. I propose to do more than that; indeed twice as much. Thus the single allowance will go up not by £90, as required by indexation, but by £180, to £2605; and the married allowance will go up not by £150 but by £300, to £4095.

The additional personal allowance and widow's bereavement allowance will thus rise by £120 to £1490. Similarly the single age allowance will rise by £220 to £3180 and the married age allowance by £360 to £5035. The higher allowances for taxpayers aged 80 and over, which I introduced in the last Budget, will correspondingly be increased by £240 and £360 to £3310 and £5205 respectively, and the new age allowance income limit will be £10,600. The upper limit of taxable income for the basic rate band will be increased to £19,300.

The increases I have just announced mean that the basic tax thresholds will be fully 25 per cent higher, to real terms, than they were in 1978-79, Labour's last year. Indeed, the married man's tax threshold will be at its highest level in real terms for nearly half a century. Given these substantial increases in tha main allowances, I am taking the opportunity to simplify the system by abolishing three minor personal allowances which have been unchanged, to cash terms, for over twenty years: the housekeeper allowance, the dependent relative allowance, and the son's or daughter's services allowance.

In our general election manifesto last year, we committed ourselves to reducing the basic rate of income tax to 25 pence in the £ as soon as it was prudent to do so. This pledge followed a reduction of twopence in the £ to 27 pence in last year's Budget.

At the time, this was regarded with some scepticism, not to say cynicism, by the Opposition, who no doubt recalled that Labour Governments used to rednce tax only in front of an election, and at all other times increased it. Indeed, shortly before last year's Budget the Rt Hon Gentleman the deputy leader of the Labour Party said this: "I must advise the Chancellor of something that he already knows: whichever party wins the general election, the tax cuts he makes in this Budget will be reversed."

Basic tax rate cut to 25p in £

I feel the time has come to put the Rt Hon Gentleman out of his misery. So far from reversing the 1987 Budget tax reductions, I propose to take this, the first opportunity since the general election, to fulfil our manifesto pledge. The basic rate of income tax for 1988-89 will be 25 pence in the pound. The small companies' rate of corporation tax will similarly be reduced to 25 per cent. This means that the basic rate of income tax, and the corporation tax rate for small companies, will both be at their lowest level since the war.

Life Assurance premium relief remains in place for policies taken out before the 1984 Budget. It has traditionally been given at half the basic rate of income tax. I therefore propose to reduce it from 15 per cent to 12½ per cent. But, to give life offices time to adjust, this change will not take effect until 6 April 1989. I also propose to reduce the additional rate which applies to the income of discretionary trusts and for certain other purposes from 18 per cent to 10 per cent.

It is now nine years since my predecessor, in his first Budget in 1979, reduced the top rate of tax from the absurd 83 per cent that prevailed under Labour to 60 per cent, where it has remained ever since. At that tima, this was broadly in line with the European average for the top rate of tax. It is now one of the highest. And not only do the majority of European countries now have a top rate of tax below 60 per cent, but in the English-speaking countries outside Europe – not only the United States and Canada, but in Labour Australia and New Zealand, too – the top rate is now below 50 per cent, sometimes well below. The reason for the worldwide trend towards lower top rates of tax is clear. Excessive rates of income tax destroy enterprise, encourage avoidance, and drive talent to more hospitable shores overseas. As a result, so far from raising additional revenua, over time they actually raise less.

By contrast, a reduction to the top rates of income tax can, over time, result in a higher, not a lower, yield to the Exchequer. Despite the substantial reduction to the top rate of tax in 1979, and the subsequent abolition of the investment income surcharge in 1984, the top five per cent of taxpayers today contribute a third as much again in real terms as they did in 1978-79, Labour's last year; while the remaining 95 per cent of taxpayers pay about tha same in real terms as they did in 1978-79.

Top tax rate reduced to 40%

After nine years at 60 per cent I believe the time has come to make a further reduction in the top rate of income tax. At present there are no fewer than five higher rates of income tax: 40 per cent, 45 per cent, 50 per cent, 55 per cent, and 60 per cent. I propose to abolish all the higher rates of income tax above 40 per cent. This major reform will leave us with one of the simplest systems of income tax in the world, consisting of a basic rate of 25 per cent and a single higher rate of 40 per cent. And, indeed, a system of personal taxation in which there is no rate anywhere to excess of 40 per cent.

I believe that 40 per cent is an acceptable top rate of tax. But, bearing in mind that the basic rate of income tax is also the starting rate, 25 per cent is still too high. Since we first took office in 1979, we have reduced the basic rate of income tax from 33 per cent – one third – to 25 per cent – a quarter. Our aim should now be to get it down to a fifth – a rate of 20 pence in the pound - as soon as we prudently and sensibly can. Meanwhile, I have today been able to reduce income tax at all levels, with increases in both the personal allowances and the basic rate limit, and reductions in both the basic and the higher rates. The tax reduction for a married man on average earnings will be worth nearly £5 a week.

The changes will take effect under PAYE on the first pay day after 14 June. They will cost £4¼ billion in 1988-89 over and above statutory indexation, of which three quarters represents the cost of increasing tax thresholds and reducing the basic rate. The total cost of all the measures in this year's Budget, again on an indexed basis, is a shade under £4 billion.

Mr Deputy Speaker, in this Budget, I have reaffirmed the prudent policiee which have brought us unprecedented economic strength. I have announced a radical reform of the taxation of marriage, which for the first time ever will give married women a fair deal from the tax system. I have eliminated the long-standing injustice of taxing inflationary gains, and abolished a fifth tax. I have radically reformed the structure of personal taxation, so that there is no rate anywhere to the system in excess of 40 per cent. After an Autumn Statement which substantially increased public spending in priority areas, I have once again cnt the basic rate of income tax, fulfilling our manifesto pledge of a basic rate of 25 pence in the £ and setting a new target of 20 pence in the £. And I have balanced the Budget.

I commend this Budget to the House.

Other political news

Baker shrugs off Labour jibes

MR KENNETH BAKER, the Education Secretary, yesterday shrugged off Labour charges that he was at odds with the Prime Minister and other senior Conservatives on major aspects of educational policy, though he admitted there was a "vigorous and robust debate" on testing under the national core curriculum.

Mr Jack Straw, the shadow Education Secretary, referred at Question Time in the Commons to the letter from Mrs Thatcher – leaked to him last week – expressing disquiet over a task group report, broadly welcomed by Mr Baker, proposing assessment of children at ages seven, 11, 14 and 16.

Mr Michael Colvin (C, Romsey and Waterside) yesterday urged Mr Baker to embrace "written tests and not some form of airy-fairy assessment," but Mr Straw said the Prime Minister's "desire for crude pass-or-fail tests" would lower standards and cost more than the task group proposals because of the necessary "army" of external examiners and invigilators.

He told Mr Baker: "So long as you fight hard against the Prime Minister and the other forces of darkness in this area, yon have our fulsome support."

Mr Baker said he had no need of such support. "Debates on these matters are vigorous and robust and sometimes public. All decisions on these matters are collective."

Mr Straw also referred to reports that Mr Baker had been frustrated in his desire to press on with the introduction of student loans and to his recent decision to abolish the Inner London Education Authority in the face of backbench pressure led by Mr Norman Tebbit and Mr Michael Heseltine, the former Cabinet ministers.

"Now that you have been rolled over by your colleagues both on Ilea and student loans, when was the last time you succeeded in Cabinet committee?"

Mr Baker said the review of financing of students in higher education would be published in mid-year, and emphasised that all decisions would be collective decisions. However, he stressed that those countries operating a combination of loans and grants had more young people participating in higher education.

Pretoria envoy to make plea for clemency

By Tom Lynch

BRITAIN'S ambassador in Pretoria is to appeal to President Botha for mercy for the "Sharpeville Six," who are due to be executed on Friday, Mrs Margaret Thatcher, the Prime Minister, told the Commons yesterday.

However, during Qnestion Time exchanges Mrs Thatcher rejected an Opposition plea for her to make a direct personal appeal to Mr Botha to halt the executions, imposed on the six for being members of a crowd some of whose members killed the deputy mayor of the black township of Sharpeville.

Mr Neil Kinnock, the Leader of tha Opposition, asked Mrs Thatcher to make a personal appeal to the President for an indefinite stay of execution.

Nigel wins a place in history behind Lloyd George

BY JOHN HUNT

AT THE OPENING of his Budget speech yesterday, Chancellor Nigel Lawson, with characteristic lack of modesty, grandly announced that it would have a place in the history books. Not, he hastened to add, as the longest budget speech of the century, but as the last untelevised one.

Bnt the parliamantary drama that followed must have surprised even Nigel, who is one of the greatest impressarios to have occupied the Treasury for many a year.

Labour and the other Opposition parties were driven in fury by a Budget which they saw as being tailored to the rich man in his castle, while offering only the odd dry crust to the poor man at his gate.

With his usual sense of the theatrical, Mr Lawson gradiosely unveiled one tax reform after another with many a sneer at the performance of the last Labour Government and comparisons with the superb performance of the economy under his stewardship.

As he drew towards the end of his speech, Mr Alex Salmond, one of the Scottish Nationalist MPs, leapt to his feet with a tirade that could hardly be heard above the roars of protest from the Tory benches.

As far as could be made out, it concerned the "obscenity" of giving to the rich at the same time as imposing the poll tax - a particnlarly sensitive topic for Scots people.

Harold Walker, the Deputy Speaker, did not mess about with niceties. He named Mr Salmond, who was immediately suspended after a vote of the House.

The protest will no doubt win Mr Salmond big headlines in Scotland, but as it delayed the speech by over 10 minutes, it must have brought curses from news editors in the media who were struggling to get the flood of Budget information to their readers and viewers.

But more was to come. Soon after resuming his speech, the unruffled Chancellor announced he was proposing to abolish all the higher rates of tax above 40 per cent. The reaction: instant hysteria among Labour left-wingers.

Dave Nellist was on his feet bawling across the Chamber. David Winnick jumped up furiously waving an order paper like a blunt instrument. Soon a chant by about 20 Labour left-wingers of "shame, shame" drowned the Chancellor's words.

The iron-fisted Mr Walker was not standing any nonsense. He suspended the sitting for 10 minntes. The Chancellor's performance had been foreshadowed as a record-making Budget. But these tumultuous events gave a new meaning to the description. Apparently the last time the House was suspended during a budget speech was when Lloyd George'e voice gave ont in 1909. Nobody could readily find a precedent for a member having been suspended during the delivery of a budget.

The undisciplined peformance of the lefties clearly angered Labour Leader Neil Kinnock who sat stony faced. The Labour strategy had been in expose the alleged divisions between Mrs Thatcher and Mr Lawson over exchange rate policy. Now there was the danger that the uproar in the chamber would overshadow any such efforts on his part.

During the suspension the Labour leftwingers gathered in the centre of the chamber in excited conversation while Derek Foster, the Labour Chief Whip, hovered nervously around them. But once off the leash these emotional characters are not easily brought to heel.

Even these strange events were not the end of it. Before Mr Kinnock could get up to speak the Scot Nats again forced a division, this time on the motion implementing the increases in excise duty that the Chancellor had announced. As for Mr Lawson, he seemed to be hugely enjoying this reaction to his speech. There was no overt signs of any difference with Mrs Thatcher who sat calmly beside him. She whispered in his ear before he rose to speak, but it was only to ask him to retrieve her handbag which she had left at the despatch box at the end of Prime Minister's question time.

Nigel had given a bumptious, swashbuckling peformance. The legal definition of VAT on confectionery was now somewhat obsolete, he said,rather like Denis Healey, the Labour Chancellor, who had introdnced it. "Cheap,cheap" protested Labour MPs.

Before announcing his radical cuts in the income tax rates he made great play with the remarks of Roy Hattersley, who when he was Labour's shadow Chancellor, had predicted that after the general election a Tory government would reverse its previous tax cuts. Nigel gleefully offered to put Mr Hattersley out of his misery bnt that gentleman, seated on the Labour front bench, was clearly not amused.

It was a pity that all these alarums had delayed Mr Kinnock's reply for when he did rise he disowned the demo by his own backbenchers and denounced Mr Lawson's proposals in one of the most impressive speeches he has made for a long time.

In a postcript to a noisy afternoon Tory MP Michael Jopling indignantly proposed that to future trouble makers should be suspended for six months without pay.

With all this going on maybe it was just as well that TV cameras were not present in the Chamber yesterday.

OIL TAXATION

Royalties abolished for the new generation of fields

AFTER the Chancellor sat down the Inland Revenue issued the following statement:

The Chancellor proposes to restructure the tax regime for the new generation of gas and oil fields in the Southern Basin and onshore. Royalty is to be abolished for all such fields developed after April 1982. At the same timethe oil allowance, which exempts a fixed amount of oil or gas production from Petroleum Revenue Tax, will be reduced for these fields.

These changes are designed to make the tax regime for those fields more profit-sensitive, so helping keep up the pace of UK oil and gas activity. And it will mean that royalties have now been abolished for all post-1982 fields.

Two further relaxations are also proposed. First, capital gains liability is in effect being lifted from pre-development disposals of oil licence interests where the consideration includes a work programme or licence swap. Second, an obstacle to the shared use of oil field facilities beyond the life of the principal field is to be removed.

A new regime for Southern Basin and onshore fields: A new fiscal regime will apply to all Southern Basin and onshore fields given development consent after 31 March 1982. At present such fields are liable to royalty, usually at a rate of 12.5 per cent, on all their production.

Royalties are administered by the Department of Energy, and the Secretary of State for Energy will be bringing forward legislation in due course to abolish royalties for these Southern Basin and onshore fields from 1 July 1988 onwards.

In addition the Finance Bill will propose legislation to reduce the Petroleum Revenue Tax (PRT) oil allowance for these fields. At present this allowance is 250,000 tonnes per chargeable period, with a cumulative limit of 5m tonnes. (The value of this exempt slice of production is deducted from the assessable profits of a field before they are charged to PRT.) For chargeable periods from 1 July 1988 onwards, the allowance will be reduced to 100,000 tonnes per period, with a cumulative limit of 2m tonnes.

Together these two changes will mean some loss of revenue in the short term, amounting to around £50m over the first five years.However, taking into account the advancement of new field developments which these measures are likely to encourage, they are expected to be broadly revenue neutral over the life of the fields affected.

The new regime will be more closely related to profitability: marginal fields will pay less in tax and royalty than they would have done under the existing system; highly profitable fields will pay more.

Capital gains relief for disposals of oil licence interests: During the debate on the provisions in last year's Summer Finance Bill relating to the treatment of oil licence interests under the general capital gains "rollover" relief, the Economic Secretary to the Treasury promised to consider, in consultation with the industry, the special position of certain licence disposals made at the exploration stage.

These are disposals where the consideration consists of an obligation by the purchaser to carry out a programme ofexploration or appraisal work on the block concerned.

Following detailed discussions with the industry, the Government proposes to give tax relief to such disposals by deeming them to be made for nil consideration. This treatment, which will also apply for capital allowance purposes, will be extended to swaps of one licence interest for another where both are at the exploration stage.

Interests in those licences which relate to blocks where no consent has been given for development at the date of disposal will qualify for the new treatment.

This new relief should foster the rationalisation of licence interests and encourage the full and speedy exploration of the UK's oil and gas potential.It is expected to cost around £5m a year.

Petroleum Revenue Tax: relief for tariff-related operating costs following the cessation of production: The Chancellor is extending the provisions for giving relief for operating costs incurred by an asset owner where they are attributable to use of the asset by someone else. Under the present rules, PRT relief is available for the cost of maintaining and operating North Sea facilities such as platforms and pipelines.

Where they are used not only in connection with the owner's own field production but also, under tariffing arrangements, by other fields, the tariff-related operating costs are attributed to the owner's field and allowed against the tariff income.

Where, however, production from the owner's field has ceased, the facilities may continue to be used for the other fields and a tariff continue to be charged. The tariff will be liable to PRT but the present rules do not allow a deduction for the continuing operating costs of these facilities against the tariff income.

The Government recognises that the lack of relief for operating costs in these circumstances was not intended and the 1988 Finance Bill will include legislation to remedy the lacuna. The new relief will enable companies to enter into long-term contracts for the shared use of facilities beyond the expected life of the owner's own field. The absence ofthe relief might otherwise have inhibited such contracts andrriven companies to invest in new pipelines instead of using existing facilities.

Mr Peter Morrison, Minister of State for Energy, said later that the new regime would be much more responsive to the economics of individual fields and will give real encouragement to the development of new fields in the Southern Basin.

Speaking immediately after the Budget announcement, Mr Morrison said: "It had become clear to the Government, in the light of our discussions with the industry, that the Southern Basin field regime was becoming insensitive to theeconomic realities of more recent fields and could be an obstacle to the development of worthwhile projects.

"Theincidence of royalty, a non-profit related levy, was the most serious impediment. The changes that have been announced will make the regime more responsive to the economics of individual fields and provide a valuable incentive for new gas developments as well as for new developments onshore. They will, therefore, also be good news for the offshore supplies industry.

"Although many more recent Southern Basin fields are highly-profitable, there are a number of gas projects with marginal economics. The industry will only bring these new fields forward for development if the fiscal climate is right.

"I believe that the industry will recognise that the Government has acted positively in relation to the needs of these projects and that they will respond accordingly. If they do so there is a real prospect that most, if not all, of Britain's gas requirements for the 1990s can be found from our own resources.

"The changes will also provide additional encouragement foronshora exploration and development activities."

CAPITAL GAINS TAXATION

General regime reformed and rebased to 1982

AFTER THE Chancellor sat down the Inland Revenue issued the *following statement:*

Taxation of capital gains: general changes:

The Chancellor proposes in his Budget a major reform in the general regime for the taxation of capital gains. The changes, which will apply to disposals on or after 6 April 1988, are:

There will be rebasing to 1982, so that only gains or losses accrued since 31 March 1982 will be brought into account. This will remove all liability on inflationary capital gains.

The charge to capital gains tax at 30 per cent is to be abolished. Instead gains will be chargeable to capital gains tax: for individuals, at the rates that would apply if they were tbe top slice of income; for trustees of accumulation and discretionary settlements, at a rate equivalent to the basic plus additional rate; and for other trustees and for personal representatives, at a rate equivalent to the basic rate of income tax.

Rebasing will apply to companies as to other taxpayers, but companies' capital gains will continue to be taxed at corporation tax rates. As part of these changes it is proposed that for 1988/89 the annual exempt amount should be reduced from £6,600 to £5,000 for individuals and from £3,300 to £2,500 for most trustees.

Details of the proposals:

Rebasing

Background: At present, the base date for capital gains tax and corporation tax on companies' gains is 6 April 1965. This means that the tax charge is confined to gains accruing from 6 April 1965 and that only capital losses accruing from that time are allowable against gains.

New base date: It is proposed to move the base date forward from 6 April 1965 to 31 March 1982 – the date which already applies for some indexation purposes. Subject to the paragraphs below on special circumstances, gains and losses accruing on the disposal of assets held on 31 March 1982 will be computed on the basis that such assets were acquired at their market value on that date. Rebasing will apply to the gains of all taxpayers, whether individuals, trustees, personal representatives or companies.

Example 1: An asset is disposed of at a gain under the present regime of £50,000. The gain since 31 March 1982 by reference to the market value of the asset on that date is £10,000. The chargeable gain will be £10,000.

Special circumstances: There will be provisions to ensure that 1982 rebasing does not increase either the amount of a gain or the amount of a loss as compared with what the gain or loss would have been under the present regime (after taking account, where appropriate, of the rules for assets held on 6 April 1965).

Where there is a gain since 31 March 1982 and a loss under the present regime, or vice versa, the result will be no gain/no loss. Where under the present regime for assets held on 6 April 1965 the disposal would be treated as taking place at no gain/no loss, rebasing will not alter the position.

The effect of these proposed rules is illustrated in the following examples. For simplicity, these ignore indexation and any other reliefs or exemptions due.

Example 2: An asset is disposed of at a gain under the present regime of £12,000. The gain since 31 March 1982 by reference to the market value of the asset on that date is £17,000. The chargeable gain will be £12,000.

Example 3: An asset is disposed of at a loss under the present regime of £8,000. The loss since 31 March 1982 by reference to the market value of the asset on that date is £19,000. The allowable loss will be £8,000.

Example 4: (no gain/no loss: assets acquired after 6 April 1965). An asset is disposed of at a gain under the present regime of £20,000. There is a loss of £15,000 since 31 March 1982 by reference to the market value of the asset on that date. The result will be no gain/no loss.

Rates of capital gains tax

Background: At present, the chargeable gains of individuals, trustees and personal representatives are chargeable to capital gains tax at 30 per cent. The rate of capital gains tax has remained unchanged since the introduction of the tax in 1965.

Individuals: It is proposed that the gains of individuals will be chargeable to capital gains tax at rates equivalent to the rates of income tax that would apply if gains were treated as the top slice of income. Accordingly, and depending on the level of an individual's income, gains will be chargeable at rates equivalent to either the basic rate of income tax, the higher rate of income tax, or partly one and partly the other.

Example 5: An individual has taxable income for 1988/89 (after reliefs and allowances) of £12,000 and gains above the annual exemption of £4,000. When treated as the top slice of income, the gains of £4,000 do not result in the basic rate limit of £19,300 being exceeded. Accordingly, the gains will be chargeable to capital gains tax at a rate equivalent to the basic rate of income tax (ie 25 per cent).

Example 6: An individual has taxable income for 1988/89 (after reliefs and allowances) of £15,000 and gains above the annual exemption of £11,000. When treated as the top slice of income, the gains of £11,000 result in the basic rate limit of £19,300 being exceeded. Accordingly, gains of £4,300 will be chargeable to capital gains tax at a rate equivalent to the basic rate of income tax and gains of £6,700 chargeable at a rate equivalent to the higher rate of income tax (ie 40 per cent).

Trustees and Personal Representatives: It is proposed that in general the gains of trustees and personal representatives will be chargeable to capital gains tax at a rate equivalent to the basic rate of income tax. The gains of trustees in respect of accumulation and discretionary settlements which are within the scope of the income tax additional rate charge will be chargeable at a rate equivalent to the sum of the basic rate and the additional rate (ie 35 per cent).

Husband and wife: At present, where a husband and wife are living together, the chargeable gains and allowable losses of each spouse are computed separately but, in general, the resulting total is assessed on the husband, unless an election for separate assessment to capital gains tax has been made.

For 1988/89 and 1989/90 the gains of the wife will continue to be assessed on the husband. Under the reform, this means that the couple's aggregate gains will be taxed (broadly as with investment income now) at the rates that would apply if they were the marginal slice of the husband's income. As now, a husband and wife will share one annual exemption.

Where a separate assessment election applies, the total tax payable on the married couple's gains will be unaltered, but it will be split up in proportion to their respective chargeable gains.

Example 7: In 1988/89 a wife has gains (after indexation) of £10,000 and the husband has gains (after indexation) of £30,000. A separate assessment election is in force. The annual exemption of £5,000 is split between them proportionately to their gains, so that the wife has exemption on £1,250 and the husband on £3,750, leaving chargeable gains of £8,750 and £26,250 respectively.

The total capital gains tax chargeable is £12,000. The tax will be split up as follows: Wife's: £8,750/£35,000 x £12,000 = £3,000. Husband's tax: £26,250/£35,000 x £12,000 = £9,000.

In the year of marriage, or if the married couple are living apart throughout the year, husband and wife are normally treated as two single people. It is not intended to alter these arrangements. For a year in which a married couple separate or divorce, the wife is treated in effect as a single person from the date of separation or divorce. The detailed rules will be adapted to take account of the abolition of the flat 30 per cent rate of capital gains tax. From 6 April 1990, it is proposed that married couples should be taxed independently on their capital gains, with separate annual exemptions, and so different rules will apply.

Underwriters: There will be provisions adapting the new proposed rates of capital gains tax to Lloyds Underwriters.

Companies: Capital gains of companies will continue to be chargeable to corporation tax at normal corporation tax rates. The special 30 per cent rate of corporation tax on gains which life assurance companies earn for their policyholders will remain unchanged pending the review of life assurance taxation.

Losses: Realised capital losses carried forward from 1987/88 and earlier years will remain available for carry forward against gains in 1988/89 and subsequent years. The computation of these losses will not be affected by rebasing.

Commencement: The changes outlined will apply to disposals on or after 6 April 1988. Disposals before that date will continue to be dealt with under the existing regime.

CAPITAL ALLOWANCES

Changes to existing reliefs for letting and sports ground safety

The Inland Revenue issued the following statement on capital allowances after the Chancellor sat down:

The Chancellor proposes in his Budget a number of technical changes to the capital allowances rules. Two of the changes deal with the consequences of separate legislation for the existing reliefs for property let on assured tenancy terms and for safety expenditure on sports grounds. Others will correct technical defects and anomalies so as to create a fairer system. In particular, they will prevent excess relief in cases involving a transfer of assets where one of the parties is not within the charge to UK tax. The changes will also mean some further simplification of the capital allowance system.The necessary provisions will be included in the Finance Bill 1988.

Assured Tenancies: The existing system of capital allowances for expenditure on the construction, or the substantial repair or improvement, of property for letting on an assured tenancy will come to an end when the Housing Bill currently before Parliament takes effect. Transitional arrangements will ensure that this does not result – for technical reasons – in the withdrawal of allowances already given.

The transitional arrangements will also provide that, subject to the normal rules, the allowances will remain available in respect of:

- Qualifying expenditnre incurred before 15 March 1988 or incurred under a contract entered into before that date
- Qualifying expenditure on land or property which an approved body acquired, or entered into a contract to acquire, before 15 March 1988 provided that the expenditure is actually incurred before 1 April 1992.

In each case, the intention is to ensure that capital allowances are available where an approved body had committed itself before Budget Day to expenditure on the provision of dwellings for letting on assured tenancy terms.

Safety at sports grounds: The rules governing capital allowances for safety expenditure at certain sports stadia are to be widened to take account of changes to the Safety of Sports Grounds Act 1975 which extend safety certificate requirements to designated sports grounds. This will mean an extension of the capital allowances relief. The new rules will apply to expenditure incurred on or after 1 January 1988.

Quarantine Kennels: The special capital allowance for the costs of altering or replacing premises which were in use as authorised quarantine premises immediately before 1 September 1972 has now served its purpose and is to be abolished. Transitional provisions will ensure that relief remains available for any expenditure incurred after 15 March 1988 and before 1 April 1989 under a contract entered into on or before 15 March 1988.

Industrial Buildings: Where a building on which industrial buildings allowances have been given is sold for less than the original cost of construction, the new owner's writing down allowances are calculated by reference to the purchase price. A special rule provides for the same treatment where the sale is by the Crown. To prevent excessive relief being allowed that rule is to be extended to cover sales by any person not within the charge to tax.

Machinery or Plant: successions to trades between connected persons. Where n person succeeds to a trade previously carried on by a person with whom he is regarded as "connected" for tax purposes, they may elect jointly that allowances and charges in respect of machinery or plant used in the trade shall be computed as if the trade had continued in the same ownership.

IT is proposed:

- To restrict the right of election to those cases where both parties are within the charge to UK tax on tha profits of tha trade.
- To enable an election to be made where a partnership is involved
- To amend and simplify the rules to overcome computational problems arising when the parties are assessed on different bases

REGISTRATION

Voluntary and intending traders rules relaxed

Changes in procedures for voluntary and intending trader registration: HM Customs and Excise issued the following statement after the Chancellor sat down: It was announced in the Budget today *that the rules for the registration of voluntary and intending traders were being relaxed.*

Voluntary registrations: Businesses, who do not have to register, but wish to do so, will need only to satisfy Customs that they are making taxable supplies by way of business. They will no longer have to show a continuing and compelling business need to register or stay registered for two years.

Intending trader registrations: Businesses who are not making taxable supplies, but intend to do so, will need only to satisfy Customs of their intention and that it is by way of business. They will no longer have to specify the date from which they intend to make taxable supplies – an approximate date will suffice.

Deregistration: Businesses registered under these provisious must notify Customs within 30 days if they are no longer entitled to registration and may incur a civil penalty if they fail to do so. Customs can cancel a registration from the date when a business is no longer entitled to registration or from a later agreed date. Where a business was never entitled to be registered, it can be voided from the original date of registration. In such cases, the input tax which has been wrongly reclaimed must be refunded to customs.

These changes, which bring UK law fully into line with EC law, will help the Government's efforts to minimise the burdens on business.

BUSINESS ENTERTAINMENT

Entertainment of overseas clients taxed

HM Customs and Excise issued the following statement, on Business entertainment of overseas customers, when the Chancellor had finished his speech

In his Bndget Speecb, the Chancellor of the Excheqner announced that the VAT incurred by businesses on entertaining overseas customers will no longer be recoverable as input tax. This change, which will take effect from 1 August 1988, will bring the VAT treatment of the entertainment of overseas customers into line with the VAT treatment of other business entertainment. It follows a similar change in the rules on business entertainment for direct tax purposes.

The existing Treasury Order governing the VAT treatment of business entertainment will accordingly be amended by Treasury Order. From 1 August 1988 no VAT incurred on business entertainment will be recoverable as input tax.

VAT REGISTRATION

Annual and quarterly limits increased

AFTER THE Chancellor had sat down, HM Customs and Excise issued the following statement:

In his Budget statement today, the Chancellor of the Exchequer announced changes in the turnover limits for VAT registration and cancellation of registration.

From midnight tonight the annual registratioo limit is being increased from £21,300 to £22,100. From the same time, the single quarterly limit is also being increased from £7,250 to £7,500.

Cancellation of registration

From 1 June 1988, the limit will be increased from £20,300 pa to £21,100 pa (excluding VAT) for persons considering cancellation of their registratioo on the basis of their expected future annual turnover. It is estimated that as a result of this change a further 16,000 persons will be eligible to request cancellation of their registration.

VAT: REVIEW OF CIVIL PENALTIES

Small businesses 'to benefit from penalty overhaul'

HM CUSTOMS and Excise issued the following statement after the Chancellor sat down: In his Budget speecb the Chancellor announced a package of proposed changes to most current VAT penalties, as well as a number of technical changes to clarify the law.

The proposals, which follow n review of the 1985 Finance Act VAT penalties by HM Customs and Excise, will mostly be to the advantage of traders, especially small businesses. The proposed changes are:

Late registration penalty: The structure of the penalty imposed under section 15 of the Act has been changed so that the rate of penalty is no longer fixed at 30 per cent ofthe net tax dne but varies depending on how late registration is.

The revised rates are: registration no more than nine months late – 10 per cent; registration over nine months but no more than 18 months late – 20 per cent; registration more than 18 mouths late – 30 per cent.

The new penalty rates will be applied from March 16. The old fixed rate of 30 per cent will be payable on the net tax due up to and including the March 15 and the appropriate new rate to the net tax due after that date. There will still be a minimum penalty of £50.

The provision, in section 18(2) of the Act, which would have made it necessary to charge default interest on outstanding VAT which was already subject to the late registration penalty, will be repealed.

Reasonable excuse: A leaflet about the late registration penalty which gives guidance on what might be, and what is not, a reasonable excuse will he issued in the summer. In the meantime, an information sheet setting out the proposed text of the leaflet will be available from local VAT Offices shortly. Similar guidance will be given in spring 1989 when the default surcharge system has been reviewed. In due course, guidance will also be issued about the serious misdeclaration penalty.

Unauthorised issue of tax invoices: Under section 15(1) (b) of the Act, persons who were not registered for VAT but nevertheless issued tax invoices were liable to a penalty of 31 per cent of the tax involved or £50 per invoice, whichever was the greater. From March 16, the provision has been changed so that the penalty is now 30 per cent of the tax involved, subject to a minimum penalty of £50 regardless of the number of invoices involved. This change related the penalty to the offence.

Regulatory penalties: From March 16, the daily rates of penalty for regulatory offences imposed under section 17(1) of the Act have been halved to £5, £10 and £15 a day. A maximum penalty of 100 days at the appropriate rate and a minimum penalty of £50 have also been introduced. It willbe n statutory condition that a penalty can be imposed only if the registered person concerned has been given a written warning in the two years preceding the assessment. Previously the *amount of penalty* was unlimited; the changes consolidate the Department's previous practice of issuing a warning letter before imposing a penalty.

Technical changes have been made to ensure that where registered persons are required to notify changes in their activities there is also a penalty for failing to do so. These changes apply from Royal Assent.

Serious misdeclaration penalty: The serious misdeclaration penalty will not be implemented until late 1989 but, in anticipation, the complicated third objective test contained in section 14(2)(b) of the Act will he repealed. Apart from its complexity the test would have applied only to smaller businesses.

A new penalty is, however, proposed in clause 14 of the Finance Bill to deal with persons who, despite a previous written warning, persistently underdeclare or overclaim tax. The penalty will nnt be imposed automatically, and can only be used when a person has underdeclared or overclaimed VAT twice within two years and a written warning has been issued. The rate of penalty is 15 per cent of the tax involved.

However, underdeclarations and overclaims which are either voluntary disclosures, or involve less than a specified amount will not count as previous errors.

Voluntary disclosure: When the serious misdeclaration penalty is introduced in late 1989 a new VAT return will have to be introduced and a revised method for adjusting errors made on previous returns will be needed.This is because it will be necessary to know the true tax liability in an accounting period. This will involve notifying the local VAT office each time an error is found.

However, inorder to make it easier to voluntarily disclose minor errors, registered persons will be able to declare amounts, of no more than £500 in total, in their VAT account. But any adjustments made in the VAT account will be treated as tax due in the period in which they are declared. It is also intended that, when the Default Interest provisions are introduced in late 1989, amountswhicb are correctly adjusted in the VAT account will not be assessed for interest.

It is particularly relevant that there is no liability to the serious misdeclaration penalty or the proposed penalty for persistent misdeclaration if an error is "voluntarily declared" to Customs and Excise before an official visit has been notified. The overriding objective of these provisions is to encourage candour between the taxpayer and the tax collector.

Repayment supplement: From Royal Assent, the level of error on a repayment return abovewhich a person is no longer eligible to a repayment supplement has been increased from £100 to £250 or 5 per cent of the amount of the claim, whichever is the greater. It has also been decided that where an overclaim of tax is found after a repayment supplement of more than £30 has been paid, Customs and Excise will in future recover the excess supplement.

Local Authorities and similar bodies: It is proposed that from Royal Assent, Local Authorities and similar bodies which are both registered for VAT and which receive refunds of tax under section 20 of the Value Added Tax Act 1983 should beeligible, subject to the usual conditions, to receive a repayment supplement on the full amount of their claim. Previously these bodies were only eligible for a supplement in respect of the tax repayable on their business activities. This change saves the bodies having to account separately for their business and non-business activities and extends significantly the scope of the repayment enpplement provisions. However, these bodies will alsobe liable, as are all other registered persons, to the serious and persistent misdeclaration penalties on the full amount of theerrors *they make. These* arrangements will not apply to bodies such as small unregistered councils which receive refunds of tax only under section 20 of the VAT Act 1983.

Technical amendments: From Royal Assent, technical amendments are proposed to the powers of Customs and Excise to assess tax and the manner in which debits and credits in a person's account are adjnsted. The changes allow tax to be assessed for the accounting period in which an error occurred. They also allow assessment of a credit which has been taken in error under the voluntary disclosure arrangements. Aseparate change to the accounting arrangements enables Customs and Excise to adopt the commercial practice of striking a balance between all types of debits and credits in a registered person's account

THE BUDGET: Details

BUILDING SOCIETIES: CONVERSION INTO PUBLIC LIMITED COMPANIES

Obstacles to seeking company status to go

THE INLAND REVENUE issued the following statement after the Chancellor sat down:

The Chancellor proposes in his Budget to remove certain tax obstacles to the conversion of building societiee to company status under the Building Societies Act 1986. This will enable building societies to decide on commercial grounds whether to convert without having to face a heavy and unintended tax charge if they do so.

Conversion will involve the transfer of a building society's business to a successor (which can either be an existing company or one formed by the society). The Chancellor's proposals are that where conversinn occurs: there will be no corporation tax on chargeable gains on assets transferred to the successor until the successor disposes of the assets; the value of rights given to members of the society to acquire shares in the successor company will be disregarded for capital gains tax purposes and no charges will arise where snch rights are exercised; assets and liabilities transferred to the successor will be exempt from any stamp duty which might arise; the tax exemption for savings held in a SAYE scheme operated by a building society will continue for contracts in being at the time conversion takes place; there will be no balancing adjustments on assets which are transferred to the successor and on which capital allowances have been claimed; and gilts and other similar financial assets will not be valued at open market value on their transfer to the successor.

These changes will be included in the Finance Bill and will take effect from when Royal Assent is given (usually towards the end of July).

Background:
The Building Societies Act 1986 provides that building societies may convert from their present mutual status into public limited companies. The successor company may be either a company specially formed for the purpose or an existing company. A building society which converts to company status would cease to be a society or to be governed by the Building Societies Act. Instead, it would be subject to company and banking legislation.

Building societies' special status means they cannot take advantage of the existing tax provisions for the reorganisation of companies. This means that heavy and unintended tax charges could arise if they decided to convert. The broad purpose of the changes proposed by the Chancellor is to recognise societies' special starting position by removing the tax obstacles to their conversion, so enabling building societies to decide on commercial grounds whether to convert.

Corporation tax on chargeable gains:
The chargeable gains of companies (which for tax purposes includes building societies) are subject to corporation tax. In the absence of remedial legislation, conversion to company status would give rise to corporation tax charges on gains on chargeable assets. It is proposed to remove these charges, whether conversion is to a new or to an existing company, so that no such charges will arise until the successor company disposes of the assets transferred.

Capital gains tax:
Shares in building societies represented by members' share accounts are chargeable assets for capital gains tax purposes. On the disposal of shares on the conversion of a society it is proposed that the value of any rights given to acquire shares in the successor company will be disregarded and that no capital gains charges will arise when such rights are subsequently exercised. Capital gains tax will be payable in the normal way on disposals of the shares in the successor company. Any cash distributions made to members in the course of the conversion will also be liable to tax in the normal way.

Stamp duty:
Stamp duty might be payable on some property when the assets and liabilities of a society are transferred to the successor company. The Finance Bill will include proposals to exempt the transfer to the successor company of the society's assets and liabilities.

The Chancellor also proposes in his Budget to abolish capital duty. The effect of this on building societies will be to remove a potential tax liability of one per cent of the net assets they contribute to successor companies.

Existing SAYE contracts:
Sums of capital or income payable under contractual save as you earn (SAYE) schemes operated by building societies are exempt from income tax and capital gains tax. In general, contracts under these schemes run for 5 years and provide the saver with a lump sum at the end of the period. It is proposed to preserve these tax exemptions for any SAYE contracts in force at the time a building society converts until the contracts mature.

Capital allowances:
The transfer of a society's trade to a successor company would give rise to balancing adjustments on the assets transferred on which capital allowances had been claimed by the society. Balancing adjustments enable capital allowances to be brought into line with actual depreciation of the assets. It is proposed that capital allowances should continue to be calculated as if there had been no change in ownership of the trade so that these adjustments will not arise.

Gilts and similar financial assets:
Under existing law, if a building society converts to company status, any gilts and similar financial assets which it holds may have to be valued at open market valne, and any excess of that value over the original acquisition cost will therefore be taxed. It is proposed that these assets will instead be treated as being transferred at cost, so that any increase in valne will not be taxed until it is realised by the successor company.

BUSINESS EXPANSION SCHEME

Residential lets companies to be eligible for BES

THE INLAND Revenue issned the following statement after the Chancellor sat down:

In his Budget, the Chancellor proposes an important extension nf the Business Expansion Scheme (BES) to investment in companies specialising in letting residential property on new-style assured tenancy terms. This form nf letting is being created in England and Wales by the current Housing Bill and in Scotland by the Housing (Scotland) Bill. The aim of the new tenancy is to encourage the provision of private rented property in order to give e wider range of choice in the housing market and, in particular, to facilitate labour mobility. The Chancellor also proposes to improve the targetting of BES by putting a ceiling of, generally, 500,000 on the total amount of investment in a company which can qualify for tax relief in any 12 months period under the BES.

The ceiling will be five million for companies raising money for ship chartering or for private rented housing. The change reflects the rapid growth of the venture capital industry which can now readily supply larger amounts of equity capital to new and growing companies. Bnt cnmpenies seeking to raise smaller amounts of equity capital can still find it hard to raise this outside the BES. The Chancellor also proposes to allow the investors in an approved BES fund to get tax relief by reference to the closing date for investment in the fund (rather than the date the fund invests the money). This change will reduce the pressure nn fund managers tn make investments before the end of the tax year.

The details of the proposal will be set out in the Finance Bill. But the main features will be as follows:

The BES relief will be available in respect nf shares issued by qualifying companies after Royal Assent to the Finance Bill (usually given in late July). This early start for the new relief will enable companies to buy properties end make the necessary preparations in time to let them on assured tenancies when the new system comes intn force towards the end of 1988. The purpose of the relief is to stimulate interest in the early years of the new system and so it will be available for investments made up tn 31 December 1993.

The relief will be available for investment in e company which specialises in the provisinn of qualifying assured tenancies over a period of at least four years from the date it issues the BES shares. The company will be able tn buy existing properties or build new ones. But the properties must be unlet when the company acquires them. To exclude expensive properties from the scope of the new relief, there will be an upper limit on the capital value of each house or flat. The detailed rules for making this valuation will be included in the Finance Bill. The limits will be £125,000 for Greater London and £85,000 for the rest of the country. The Finance Bill will contain a power to amend these limits by statutory instrument.

Normal assured tenancies, which provide security of tanure, will qualify. However, assured shorthold tenancies ("short assured tenancies" in Scotland) will be excluded as the aim of the new BES relief is to encourage the continuing provision of rented property.

The normal BES restriction on the proportion of the company's assets which can take the form of land and buildings will not apply to companies providing private rented housing. Such a rule would be inconsistent with the purpose of the new relief which is to encourage companies' to invest in housing.

Chancellor proposes to include in the Finance Bill provisions to limit the amount of investment in e company in any 12-month period which can qualify for tax relief under the BES. The total amount of investment which would qualify for BES relief will be restricted to £500,000 except for companies raising money for ship chartering or the new relief for private rented housing for which the limit will be £5m.

The amount of relief available will be reduced if the company or any of its subsidiaries carries on any trade or part of a trade in partnership, or as a party to a joint venture, with one or more other persons (this will ensure that a business raising an amount of equity capital in excess of the limit is not artificially broken down into smaller components to be carried out by separate BES companies acting in concert). The new limit will apply to shares issued after 15 March 1988. In calculating the aggregate amount raised by a company in any period of 12 months, any amounts raised on or before 15 March 1988 will be taken into account as well as any amounts raised after that date.

The Finance Bill will also include a provision helping investment through an approved BES fund. Entitlement to relief will, as now, be dependent upon investment in shares in companies. But relief will be given by reference to the closing date for investment in the fund rather than, as now, the date the fund invests in the company. At least 90 per cent of the amount subscribed by the individual to the fund will have to be invested in eligible shares within 6 months of the closing date. The change will apply to funds closing after today.

CORPORATION TAX

Rates to be set in advance

AFTER THE Chancellor's speech, the Inland Revenue issued the following statement:

The Chancellor proposes in his Budget to set in advance the rates of corporation tax for the Financial Year 1988. The main rate of corporatinn tax will remain unchanged at 35 per cent. There will be e reduction in the rate of corporation tax for small companies from 27 per cent to 25 per cent. Although the rates of corporation tax for the Financial Year 1988 need not be set until the 1989 Budget, advance announcement helps companies plan ahead.

Abolition of need for Treasury consent to moves by companies

AFTER THE Chancellor sat down the Inland Revenue issued the following statement:

The Chancellor proposes in his Budget to abolish the present requirement for Treasury consent to company migration, to introduce a simple test of company residence and to provide for e tax charge on unrealised gains when companies migrate. These changes, which will bring the United Kingdom more into line with other countries, will take effect from today.

Background: The proposed reform replaces the present rules on company migration and transfers of trades or businesses in Section 482 (1) (a) and (b) of the Taxes Act 1970. Under these rules companies can cease to be resident for tax purposes in the United Kingdom or transfer their trade or business to non-residents only with the consent of the Treasury.

Details: The main points are: companies incorporated in the United Kingdom will be resident here for tax purposes. If these companies transfer their trade or business to non-resident companies, the existing rules to determine tax liability, including that on capital gains, will apply.

Companies incorporated in the United Kingdom before today but not resident here under existing rules will become resident here only after five years from today unless central management and control of the company is transferred to the United Kingdom in the interim.

Companies not incorporated in the United Kingdom will continue to be resident here if they are centrally managed and controlled here. If they wish to migrate they will have to give the Inland Revenue notice of their intention and make suitable arrangements for payment of tax. These companies will have to pay tax on unrealised gains on migration. The charge will not however apply to United Kingdom assets of a branch or agency which remain here. It will also be possible to defer the charge on foreign assets of e foreign trade where a subsidiary company migrates but the principal company remains resident to the United Kingdom.

Applications for consent made before today will be dealt with under the existing rules. If consent is given the company will be treated after migration as if it were non-resident in the United Kingdom before today for the purposes of the proposals on incorporation and tax on unrealised gains. The parts of Section 482 dealing with the non-resident subsidiaries of United Kingdom companies (subsection (1) (c) and (d)) are not being changed. Revised General Consents are being issued today and these should halve the number of applications which need to be made.

ARTIFICIAL CAPITAL LOSS DEVICES COUNTERED

Move to block exploitation of capital gains indexation allowance

THE INLAND REVENUE issued the following statement after the Chancellor sat down: The Chancellor proposed in his budget to counter the exploitation of the capital gains indexation allowance which can occur through intra-group financing.

When a company disposes of, or receives payment in respect of, a debt on a security owed by a linked company, or disposes of redeemable preference shares in a linked company, no indexation allowance will be given if the companies were already linked when the debt or shares were acquired.

The indexation allowance will be restricted if the companies became linked between the dates of the acquisition and the disposal.

When a company disposes of other shares in a linked company no indexation allowance will be given if the companies were linked when the shares were acquired and the acquisition was directly or indirectly financed by an intra-group loan; and the sole or main benefit which might have been expected to accrue from the acquisition was an indexation allowance on the eventual disposal of the shares.

Companies are linked for this purpose if they are in the same group or under common control or if one controls the other.

The measures will apply to disposals on or after Budget Day.

These new measures will counter arrangements by which groups can use the capital gains indexation provisions to create large artificial capital losses for taxation purposes.

Transactions between members of the same group of companies do not normally attract tax liability. A debt on a security is however a 'chargeable asset' even if the loan is between group companies. Although the company lending the money might receive repayment of such a debt in full, it is still entitled to an indexation allowance which creates a capital loss. This allowance is not available for straightforward intra-group loans. It is obtained by clothing the loan in a particular legal form.

This can be further exploited in two ways: the group can interpose one or more member companies between the member with money to lend and the member that wants to borrow it. Each intermediate company receives and makes a loan of the same amount and each will be able to get indexation relief. This means that more than one amount of relief will be given on what is really the same asset. If the true borrower buys an asset with the money then that asset will also qualify for indexation relief on disposal; or funds can be passed round in e circle back to the lender in exchange for the issue of new shares. There is no real asset at all, but again more than one amount of indexation relief arises. Very large sums may be involved.

Similar effects can be obtained by using redeemable preference shares or ordinary shares whose acquisition is financed by an intra-group loan.

The measures proposed by the Chancellor will counter these devices by withdrawing or restricting the indexation allowance (Sections 86 and 87 and Schedule 13 Finance Act 1982; Section 68 and Schedule 19 Finance Act 1985) on the debts and shares concerned.

BENEFITS IN KIND

Scale charges for tax on directors' cars doubled

THE INLAND Revenue issued the following statement on income tax benefits in kind when the Chancellor had finished his speech:

The Chancellor proposes in his Budget to double the scale charges for taxing cars provided for directors or "higher-paid" employees and to exempt from tax the benefit of a work place car parking space provided for an employee. These changes will take effect from 6 April 1988. No increase is proposed for 1988-89 in the scales relating to fuel provided for private motoring in company cars which have also been used for VAT purposes since April 1987.

Car benefit scales: The benefit of a car provided by an employer which is available for private use is taxed by reference to a fixed scale charge. It is widely recognised that the present car scales substantially undervalue the full benefit from having a company car. The Chancellor therefore proposes to double car benefit scales in 1988-89. This increase includes the 10% increase previously announced for 1988-89.

Implementation of the 1988-89 car scale changes
The new rates will take effect from 6 April 1988. The necessary legislation will be included in the Finance Bill. Tax offices will review individually all PAYE codes containing an adjustment for car benefits and will amend them to reflect the proposed scale charges.

Employers and employees will be notified of the revised codes. The new codes will generally take effect on the first pay day after 14 June 1988. It is estimated that in all but a very small minority of cases, the additional tax payable under the proposed new car benefit scales will be less than the tax reductions from the increases in personal allowances and the reductions in the income tax rates proposed by the Chancellor.

Car parking: The provision by an employer of parking facilities for his employees frequently gives rise, in principle, to a taxable benefit. In practice, there are numerous difficulties in measuring the value of the benefit which in individual cases may be quite small and consequently not much tax has been collected. The Chancellor therefore proposes to clarify the position by exempting from tax the benefit of a work place car parking space provided for an employee by reason of his employment.

The exemption will apply to a car parking space provided at or near the employee's place of work. It will also apply where the employer reimburses a "lower-paid" employee for the cost of such a parking space or similarly where the employer pays for one by means of a season ticket or other voucher. The exemption will apply from 6 April 1988.

Treasury Ministers have authorised the Inland Revenue not to pursue tax liabilities with employers in respect of work place car parking for years up to and including 1987-88 which are unsettled as at 15 March 1988. Similarly, liability will not be pursued where no action has been taken by 15 March 1988 to collect tax due from an employee in respect of e work place car parking space for years up to and including 1987-88 (either by assessment or adjustment to the PAYE code). However no repayment will be made where tax has been paid or is being paid in accordance with the law in force for those years.

Employees whose 1988-89 PAYE codes include an adjustment to collect the tax due on the benefit of a parking space will in general be identified when tax offices examine the 1987-88 P11D returns from April onwards. However, any employee whose 1988-89 code includes this benefit may ask his Inspector to remove it.

Assessments of the compliance costs of proposals affecting businesses are available.

Car benefit charge scales: Cars with an original market value up to £19,250 and having a cylinder capacity of 1400cc or less and under four years old: charge £1050 (£525) and over four years £700 (£350); 1401cc to 2000cc, under four years old, charge £1400 (£700) and over four years old £940 (£470); more than 2000cc, under four years old, charge £2200 (£1100) and over four years old, charge £1450 (£725).

Cars with an original market value up to £19,250 and not having a cylinder capacity (value less than £6,000 and under four years old, charge £1050 (£525) and over four years old £700 (£350);

COMPANIES' GAINS

'Double taxation' to end

THE INLAND REVENUE issued the following statement on the prevention of Double taxation of companies' capital gains from intra-group share exchanges:

The Chancellor proposes to amend rules for taxation of companies' gains to ensure that share exchanges by companies in the same group do not result in capital gains or losses being charged or allowed more than once. The amendment will remedy e defect in the law, will be included in the Finance Bill and will apply to share exchanges on and after Budget Day. It corrects an overlap in the rules about transfers of assets between members of the same group of companies and the rules about share exchanges.

Disposals between companies within the same group do not normally attract tax liability. Generally the accrued gain or loss is rolled over with the transferred asset to be taxed or allowed when it leaves group ownership. But special rules can apply if the asset is a holding of shares and those shares are acquired by another group member in exchange for the issue of new shares. In this case the accrued gain or loss on the existing shares is rolled over to the new shares, for taxation when they leave group ownership. These rules were meant to apply instead of the general rule. The Courts have however said that both rules apply to the existing shares, meaning the pre-exchange gain or loss is rolled over with the existing shares and to the new shares; the gain or loss will eventually be taxed or allowed twice.

LLOYD'S

Reform of tax administration for members

AFTER THE Chancellor sat down, the Inland Revenne issued the following statement:

The Chancellor proposes in his budget to reform the administrative arrangements for assessing and collecting tax from Lloyd's members.

The present system is complex and costly to administer for both Lloyd's and the Revenue. It gives rise to excessive delays in collecting tax from profits and in repaying tax to Lloyd's members when they incur losses. Simplification is necessary to cope with the continning increase in Lloyd's membership and the consequences of the Revenue's scrutiny of reinsurance to close premiums.

The revised arrangements are the outcome of extensive discussion with Lloyd's. There will be further consultation with Lloyd's nn the details. The revised arrangements will first take effect for the 1986 underwriting year. The accounts for that year will be closed at the and of 1988, and tax first becomes payable on January 1 1990. The revised arrangements will apply to underwriting profits/losses and to investment income from syndicate premium trust funds. Capital gains from premium trust funds will not be affected. These proposals will not significantly affect the amount of tax paid by Lloyd's members.

How Lloyd's operates:
Lloyd's members trade as underwriters, but conduct their business through syndicates, managed by agents. Most Lloyd'e members are members of a number of syndicates. The member's profit or loss from each syndicate comes from three sources: underwriting profit or loss, investment income from the premium trust fund and capital gains from the premium trust fund. The member's overall profit (or loss) from his underwriting ectivity reflects his share in the profit (or loss) from all the syndicates of which he is a member.

Present tax arrangements:
There are special legislative rules for assessing and collecting tax from Lloyd's members. The present rules were introduced in 1972, and were designed to adapt the normal rules to the way in which Lloyd's operates commercially. The present system is inadequate to cope with the increase in Lloyd's membership (about 6,000 in 1972; more than 30,000 now). The need for reform and simplificatinn is increased by the detailed scrutiny of reinsurance to close premiums, following the legislation in 1987 (Finance (No. 2) Act 1987, Section 70).

MAIN FEATURES OF THE PROPOSED REFORMS

Syndicate agents' responsibility for returns of syndicate profits:
In practice, syndicate agents submit tax computations to the Inspector for syndicate underwriting profits/losses and syndicate investment income. But the agent has no legal responsibility for producing this tax compntation, even though he is the only person in a position to produce it. The new proposals will give the syndicate agent a legal responsibility for making a return of the syndicate profit, and for eppealing (and if necessary litigating) if there is a dispute with the Inspector about the amount of the syndicate's profit or loss for tax.

Basis of assessment of underwriting profits and syndicate investment income:
Both of these sources of income will be charged to tax under Case I of Schedule D, as income of the member's underwriting trade. At present this treatment applies to underwriting profits, bnt not to investment income. The difference in treetment is e majnr source of complexity and delay. It produces an excessive number of separate calculations, repayments and snbsequent adjustments.

Collection of tax from syndicate agents:
Agents will be required to make e payment on account of basic rate tax on the syndicate profit – i.e. both underwriting profit and syndicate investment income. At present, the agent makes e payment on account of basic rate tax on syndicate investment income, but not on underwriting profit. This difference of treatment exacerbates the problems – see above – arising from the separate basis of assessment for the two types of income.

Assessment of members nn underwriting profits and investment income:
The member will be assessed on his aggregate profit from his syndicates six mnnths after his agents have made their payment on account of basic rate tax. The assessment will cover both basic rate and higher rate liability, with credit for the tax already paid to the Revenue by his syndicate agents. (At present, basic rate and higher rate tax are assessed at different dates – January 1 and July 1respectively – e.g. January 1 and July 1 1990 for the Lloyd's 1986 account, which closes at the end of 1988. This duplication is a further complication in the present system).

Compliance Cost Assessment:
Assessment of the cnmpliance costs of proposals affecting businesses are evailable. A copy of the Compliance Cost Assessment for this proposal can be nbtained from: Inland Revenne, Deregulation Unit, Room 77, New Wing, Somerset House, London, WC2R

Changes to RIC premiums tax

The Inland Revenue issued the following statement after the Chancellor sat down:

The Chancellor proposes in his Budget to modify the effect of the 1987 legislation on the tax treatment of Lloyd's Reinsurance to Close (RIC) premiums.

The effect of the changes will be to give relief from the effect of the RIC legislation to Lloyd's members who leave syndicates, and to produce simpler and more equitable treetment for those who continne their syndicate membership.

The proposals have been discussed with Lloyd's. They do not affect the general rules in the 1987 legislation for determining the amount of RIC premiums that are tax deductible.

The RIC legislatinn first epplies to the Lloyd's 1985 underwriting year. These proposals will take effect from the same date. (The Lloyd's 1985 underwriting account closes at the end of 1987. The amount of the premium is established early in 1988 and tax for the underwriting year first becomes payable on January 1 1989.)

Lloyd's RIC is the payment of insurance premiums by members of Lloyd's syndicates in order to close the account for the underwriting year. The premiums for that year (Year 1) are paid to the members of the Year 2 syndicate who assume the outstanding liabilities. The payers of the premium for Year 1 receive a tax deduction against their Year 1 profits; the recipients of the premium in Year 2 have a taxable receipt.

The purpose of the 1987 RIC legislation (Section 70, Finance (No 2) Act 1987): This legislation ensures thet RIC is subject to effective scrutiny for tax purposes, on criteria which take account of the particular features of Lloyd's, and the special nature of RIC. The test in the legislation is that RIC is not tax deductible if it exceeds a "fair and reasonable" assessment of the value of the outstanding liabilities which are the subject of the premium payment.

If part of the premium paid by the member of the Year 1 syndicate is disallowed for tax he gets a smaller tax deduction against his profits for Year 1. The recipient of the premium (the member of the Year 2 syndicate) gets a corresponding credit for the amount disallowed for Year 1 against his taxable receipts for Year 2.

The effect of the proposals on members who leave syndicates: At present a member who leaves a syndicate would have a reduced tax deduction for Year 1, but would not get any credit for that disallowance for Year 2 (because the credit would go to his successor in the Year 2 syndicate).

The effect of the new rule is that the leaver will get a full tax deduction for the premium he pays for Year 1, without being affected by the RIC legislation. Correspondingly, there will be nn reduction in the taxable receipts in Year 2 – i.e. no credit – for the recipients of his premium. So a person who joins a syndicate afresh in Year 2 will get no credit.

The effect of the changes for continuing members of syndicates: i.e. those who are members of the syndicate paying the premium in Year 1 and also members nf the Year 2 syndicate receiving tbe premium. There will be no change in the tax treatment of premiums paid by these members for Year 1.

The difference in treatment will be in the amount of credit received for Year 2, against the taxable receipts for that year. Under the present rules the amount of a member's credit for Year 2 is governed by the size of the member's share in that syndicate. So a member who reduced his share in the Year 2 syndicate would find that his credit for Year 2 was smaller than his tax disallowance for Year 1.

Correspondingly, the persou with an increased syndicate share for Year 2 would have a credit for that year which was bigger than his tax disallowance for Year 1. The new rule will be simpler. The amount of a member's credit for Year 2 – i.e. the reduction in the taxable receipt for Year 2 – will be the same as the amount of that member's RIC premium disallowed for Year 1.

THE BUDGET: Details

Growth below last year but inflation rate expected to stay low

THE TREASURY yesterday published the Financial Statement and Budget Report outlining the short-term prospects to mid-1989. It said:

Growth should be around 3 per cent in 1988, close to the average rate over the last six years, but significantly below the 4½ per cent growth in 1987. *Inflation* is expected to remain low and there are good prospects for a further fall in unemployment.

The economy grew strongly in 1987, with GDP growth of 4½ per cent and manufacturing output growth of 5½ per cent. Domestic demand rose by 4 per cent, the same as in 1986. It is expected to rise at a similar rate in 1988, with slightly slower growth of consumer spending being offset by markedly faster growth of investment. GDP is forecast to grow by 3 per cent (3½ per cent for non-oil GDP).

Retail price inflation averaged just over 4 per cent in 1987. It fell to 3⅓ per cent in January 1988, but is forecast to return to 4 per cent in the fourth quarter of 1988.

Employment has risen strongly over the past year, with unemployment falling by half a million – the largest decline since the war. Unemployment should continue to fall this year.

GNP in the main industrial economies grew by about 3 per cent last year. In 1988 growth could ease slightly to 2½ per cent. Industrial production picked up strongly during 1987. Associated with this were faster growth in trade in manufactures and some recovery in industrial materials prices. World trade in manufactures appears to have grown by about 5½ per cent in 1987 and should grow by a similar amount this year.

Both export and import volumes grew rapidly last year: some moderation in growth is likely in 1988. Following *recent revisions to the surplus on invisibles* the current account is now estimated to have been in deficit by a little over £1¼ bn in 1987. A deficit of £4 bn (less than 1 per cent of GDP) is forecast for 1988.

The forecast assumes that fiscal and monetary policies are operated within the framework of the Medium Term Financial Strategy. It assumes that North Sea oil prices and the exchange rate remain close to recent levels.

Financial conditions:Sterling has shown considerable stability against the D-Mark over the past year. There was an inflow of $20 bn into the reserves in the year to £February. Following the Louvre accord, the dollar remained stable against the major currencies for much of 1987, before falling further towards the end of the year. It has risen slightly in the early months of 1988, in the wake of the G7 statement just before Christmas and improved US trade figures.

Short-term interest rates in the UK fell from 11 per cent at the beginning of 1987 to 9 per cent in July. They rose to 10 per cent in August, but came down again to 8½ per cent in the immediate aftermath of October's stock market collapse. Following the restoration of more settled markets earlier this year, short-term interest rates returned to around 9 per cent. Longer term interest rates *have followed a similar profile to* short-term rates, but with smaller fluctuations. In the most recent period they, too, have been around 9 per cent.

M0 growth, which fell in early 1987, rose rapidly in the summer reflecting lower interest rates. It may move to the top of, or outside, its 1-5 per cent target range in the early part of the financial year before coming back within it.

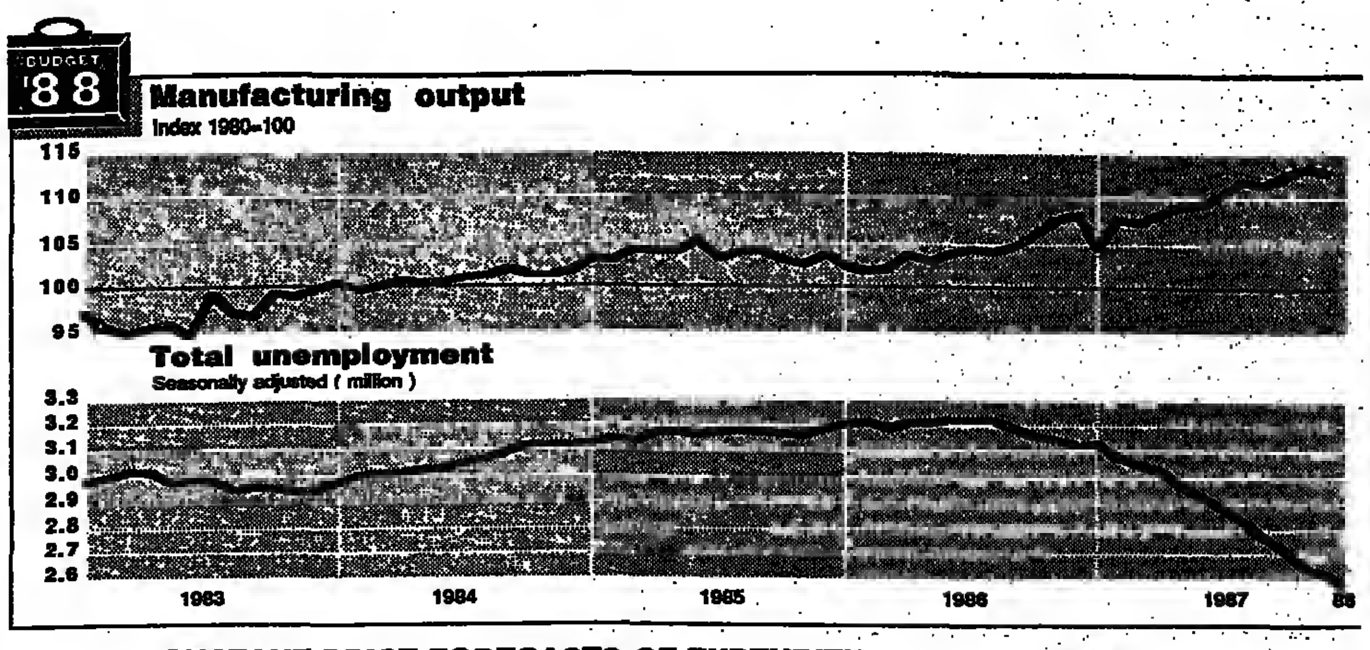
M4, which includes the liabilities of both banks and building societies, has grown at close to 16¼ per cent over the past year. As in recent years, there has been a sharp fall in its velocity.

Output growth in the industrialised countries strengthened in the second half of 1987, particularly in North America and Japan. Real GNP in the major seven OECD countries is estimated to have increased by 3 per cent in 1987, marginally faster than in 1986.

Substantial falls in import prices in 1986 – notably for oil, but also for many other primary commodities – were partly reversed in 1987. Oil prices recovered from their low point of the summer of 1986, but have weakened in recent months. Prices of other industrial materials rose as world activity picked up. Nevertheless, consumer price inflation in the major economies has remained low. In Japan and Germany, the appreciation of their currencies meant that inflation was close to zero. But in the US, consumer price inflation rose to 4½ per cent at the end of 1987.

The improved terms of trade for developing countries boosted the exports of the major industrialised countries and helped to strengthen business investment. This more than offset some slowdown in the growth of real personal incomes and consumer spending. As a result industrial production has been particularly buoyant; industrial output in the major seven OECD economies was over 5 per cent higher in December 1987 than a year earlier.

Equity prices in the US and most other countries continued to rise in the first part of 1987, reaching an all-time high in a number of countries around mid-year. In large part, the subsequent fall in equity prices can be seen as a correction, even though the scale and sharpness of the fall in October were unprecedented. Prompt action by the monetary authorities in the major countries to reduce interest rates and provide sufficient liquidity helped to prevent a major collapse of confidence.



CONSTANT PRICE FORECASTS OF EXPENDITURE, IMPORTS AND GDP[1]

£ billion at 1980 prices, seasonally adjusted

	Consumers' expenditure	General government consumption	Total fixed investment	Exports of goods and services	Change in stocks	Total final expenditure	*Less* imports of goods and services	*Less* adjustment to factor cost	*Plus* statistical adjustment	Gross domestic product at factor cost	GDP index (average estimate) 1980=100
1983	144·5	50·5	41·6	64·4	0·7	301·8	62·6	31·6	0·1	207·7	104·0
1984	147·7	51·0	45·0	68·9	0·3	312·8	68·7	32·7	1·3	212·7	106·5
1985	153·4	51·0	46·3	73·0	0·7	324·3	70·6	33·8	0·6	220·5	110·4
1986	162·6	51·6	46·2	75·3	0·6	336·2	75·1	35·5	1·4	227·1	113·7
1987	171·0	52·2	47·8	79·5	0·8	351·4	80·7	37·5	3·8	236·9	118·7
1988	178·3	52·7	51·0	81·9	1·3	365·1	86·0	39·1	4·4	244·4	122·4
1986 H1	80·3	25·7	22·7	36·8	0·4	165·9	36·1	17·5	0·4	112·6	112·8
H2	82·3	25·9	23·5	38·5	0·2	170·3	38·9	18·0	1·0	114·5	114·6
1987 H1	83·8	25·9	23·4	39·1	−0·2	172·0	38·5	18·3	1·7	116·9	117·1
H2	87·2	26·3	24·4	40·5	1·0	179·4	42·3	19·2	2·1	120·0	120·2
1988 H1	88·5	26·3	25·2	40·8	0·5	181·3	42·3	19·4	2·1	121·7	121·9
H2	89·7	26·4	25·8	41·1	0·7	183·8	43·7	19·7	2·2	122·7	122·9
1989 H1	91·3	26·6	26·4	41·7	0·7	186·7	44·1	19·9	2·2	124·9	125·1
Per cent changes											
1983 to 1986	6	1	1	3	—	3½	6½	5	—	3	3
1986 to 1987	5	1	3½	5½	—	4½	7½	6	—	4½	4½
1987 to 1988	4	1	6½	3	—	4	6½	4	—	3	3
1988 H1 to 1989 H1	3	1	5	2	—	3	4	2½	—	2½	2½

[1] *The GDP figures are averages of constant price expenditure, output and income estimates of GDP. Percentage changes are calculated from unrounded levels and then rounded to the nearest half per cent. Figures for 1988 H1 and beyond are forecasts. Figures for periods to the end of 1987 are based in part on the published national accounts (to 1987 Q3) and in part on revised and later data and forecasts. A full set of national accounts to end-1987 will be published by the CSO on 18 March.*

In the US, domestic demand growth, which had averaged 5½ per cent a year between 1983 and 1986, slowed to 2½ per cent in 1987; as a result, the growth of import volumes has also slowed. US export volumes are now responding strongly to the massive depreciation of the dollar from its 1985 peak; by the fourth quarter of last year they were 17 per cent higher than a year earlier. These favourable movements in trade volumes were, for much of 1987, offset in money terms by the effects of the dollar's fall. But more recent figures have suggested some decline in the US trade deficit.

A two year phase of relatively slow growth in Japan ended in the spring of 1987 as exports stopped falling and domestic demand picked up sharply. But in Germany both real domestic demand and GNP grew slowly in 1987. The current account surpluses of both Japan and Germany fell slightly in relation to their GNP in 1987, with that of Japan falling rather faster.

World import volumes are estimated to have grown by more than 4 per cent in 1987. This is slightly lower than in 1986, when there was a substantial rise in oil trade as stocks were rebuilt. The growth of trade in manufactures in 1987-provisionally estimated at about 5½ per cent-picked up substantially, helped by the continnad buoyancy of domestic demand in the major seven countries and by increased demand from the rest of the world.

The accompanying table shows the forecast for activity and inflation in the major seven OECD countries, and for world trade. In aggregate, real GNP in the major seven countries is expected to grow a little less strongly in 1988 than in 1987, though industrial production should remain buoyant. Inflation is likely to stay low.

As a result of the continued strength of industrial activity, some further modest rise in non-food commodity prices is expected during 1988. Food prices, however, are likely to be held down by continued over-supply, encouraged by high levels of support in many countries. The forecast is based on the assumption that North Sea oil prices remain close to recent levels.

Imports by industrial countries are expected to grow less rapidly than in 1986 and 1987. However, imports hy non-oil developing countries willbe helped by stronger commodity prices, and hence export earnings. Total world trade in 1988 is forecast to grow at close to the rate experiencedin 1987.

UK trade and the balance of payments: In the UK, unit labour costs to manufacturing rose only slightly in 1987, at a similar rate to the average in the other major economies, with rapid productivity growth largely offsetting a continuing high level of pay increases. Despite some appreciation of sterling, the UK's cost competitiveness remains more favourable than in 1985, before the fall in world oil prices. The maintenance of competitiveness in the year ahead will depend on success in continuing to restrain unit cost increases.

Non-oil export volumes rose by 7 per cent in 1987. Manufactured exports rose particularly strongly, reflecting renewed growth in world trade and the UK's strong competitive position. Non-oil export volumes are forecast to rise in 1988 by a further 5 per cent.

The UK increased its share of world trade in manufactures slightly in 1987. Its volume share has remained broadly stable since 1981, in marked contrast to the previous long-term decline. This improved performance is forecast to continue in 1988.

Non-oil import volumes fell *unexpectedly* in early 1987, but rose during the rest of the year, and were 8½ per cent higher than in 1986. The increases were widespread, with higher imports of materials and capital goods reflecting the strong growth of UK production, stocks and investment. Consumer goods imports also rose in response to the rise in consumer spending. The volume of imports is forecast to rise less rapidly through tha year ahead as output growth slows.

There was a surplus on oil *trade of £4 bn in 1987, littla* changed from 1986. Higher oil prices and a fall in domestic demand for oil more than offset a decline in North Sea production. In 1988, oil production is likely to be below its 1987 level, close to the centre of the Department of Energy's projected output range, while domestic demand for oil may rise modestly. The oil trade surplus is expected to fall by £1½ bn, to about £2½ bn.

The terms of trade, which fell in 1986 as oil prices declined, *improved again in 1987 as oil* prices firmed and as sterling's appreciation offset some rise in world commodity prices in the latter part of the year. Little further change in the terms of trade is assumed during the rest of 1988.

The latest estimate for the surplus on invisibles in 1987, at £8 bn, is slightly below the outturn in 1986, with increased transfers to the European Community being only partly offset by higher net earnings from services and from the UK's net overseas assets. The invisibles surplus seems likely to rise a little in 1988, partly because of lower net payments abroad by North Sea oil companies.

The value of the UK's stock of net overseas assets is provisionally estimated to have been about £90 bn at the end of 1987, some £20 bn down on end-1986. This decline is largely due to the fall in world equity markets and in the sterling value of UK assets in North America following the fall in the US dollar.

The current account deficit is estimated to have been a little over £1¼ bn in 1987. The improvement over the forecast in last year's FSBR was mainly due to the unexpected strength of exports of manufactures. A deficit of £4 billion (less than 1 per cent of GDP) is forecast for 1988, largely as a result of the projected decline in the oil surplus. The deficit on non-oil trade is forecast to show little further change from the level in the second half of 1987.

The UK economy grew by 4½ per cent in 1987. Growth was strong throughout the non-oil economy: manufacturing output rose by 5½ per cent, construction output by 8½ per cent and output of the service industries by 5½ per cent.

Consumers' expenditure is now estimated to have risen by 5 per cent in 1987, less than in 1986. This was faster than the 3¼ per cent growth in real personal disposable income, and the savings ratio once again fell.

A number of fsctors could account for the decline in the savings ratio in recent years. Inflation has been at a low level not experienced since the 1960s. Recent increases in real house prices, and in equity prices to October 1987, may also have contributed. And many employers have taken so-called holidays on their contributions to employees' pension funds; these score as reduced personal saving.

Personal borrowing rose further during 1987, in large part reflecting increased mortgage borrowing. But personal sector financial assets showed a larger increase, despite the October share price fall

Consumers' expenditure is forecast to increase hy 4 per cent in 1988 and the savings ratio is expected to bounce back a little. Persons' investment in dwellings could rise by around 3½ per cent in 1988, rather more slowly than over the last two years.

Non-North Sea industrial and commercial companies' profits (net of stock appreciation) rose sharply in 1987, hy over 20 per cent. The rate of return of non-North Sea industrial and commercial companies was around 11 per cent – the highest level for about 20 years. Manufacturing profitahility grew particularly strongly.

Current estimates suggest that manufacturing investment grew hy 3½ per cent last year, while total non-oil business investment grew by 6 per cent. The latest DTI Investment Intentions Survey indicated a strongpick-up in manufactnring investment growth, to about 11 per cent in 1988. The January CBI Industrial Trends Survey, the first full enquiry since the fall in share prices, confirms that prospect, with a near record balance of manufacturing firms expecting to increase investment. On the basis of the DTI Survey, further steady growth is expected in non-manufacturing business investment. This ontlook for company investment is consistent with the recent and prospective buoyancy in output, real profitability and company finances, and it will add to industrial capacity. North Sea investment fell in 1987 and is expected to show little change in 1988.

Despite a rise in stocks in 1987, stock-output and stock-sales ratios continued their trend decline of the last eight years. These downward trends are expected to continne in 1988, though, as last year, there is still likely to be modest stockbuilding.

GDP growth is likely to moderate to around 3 per cent (3½ per cent excluding oil) in 1988, close to the 1981-87 average. Domestic demand is forecast to rise at around the same rate in 1988 as in 1987; some slowdown in consumer spending should be offset hy huoyant investment. Bnt declining North Sea output may reduce GDP growth by around ½ per cent. Manufacturing output is expected to rise faster than non-oil GDP in 1988, as it did in 1987.

The annual rate of inflation as measured by the RPI was 4.1 per cent in 1987Q4, in line with the *forecasts* in the 1987 *FSBR* and Autumn Statement. The average rate for 1987 as a whole was 4.2 per cent. Last year was the first time in 23 years that inflation was lower than the growth of GDP.

Annual increases in the RPI-Pay settlements in manufacturing industry recorded by the CBI show a fall of about 1 percentage point between the 1985-86 and 1986-87 pay rounds. There was a similar picture in the services sector. Whole economyunderlying average earnings, boosted by record overtime working in manufacturing, rose by 7¾ per cent in 1987. But unit labour costs in manufacturing were hroadly unchanged in 1987, reflecting a sharp increase in labour productivity.

It is difficult to discern a reliable trend in recent private sector pay settlements. They have heen markedly lower than the recent high growth in earnings, which reflects record overtime working and bonus payments. Recent data suggest that settlemants may turn out a little higher in 1988 than in 1987, but overtime working (and overtime earnings) should fall as economic growth moves back closer to trend.

In 1987 rapid growth in productivity meant that manufacturing unit labour costs rose only fractionally, in line with other major industrial countries.

Continued on next page.

VISIBLE TRADE

	Per cent changes on previous year					
	All goods			Goods less oil		
	Export volume	Import volume	Terms of trade[1]	Export volume	Import volume	Terms of trade[1]
1986	3½	6½	−5½	4	5½	−½
1987	5½	7½	1½	7	8½	1½
1988 Forecast	3½	7	1	5	7	1½

[1] *Ratio of UK export average values to import average values.*

OUTPUT PER HEAD

	Per cent changes					
	Annual averages			1984 Q4 to 1985 Q4	1985 Q4 to 1986 Q4	1986 Q4 to 1987 Q4[2]
	1964–73	1973–79	1979–87			
Manufacturing	3¾	¾	4	2½	6½	6½
Non-manufacturing[1]	3	½	1½	3½	3½	3½
Whole economy	2¾	1½	2	2½	3¾	3½
Non-North Sea economy	2¾	½	2	2½	3½	3½

[1] *Excludes public services and North Sea oil and gas extraction.* [2] *Partly forecast.*

SHORT-TERM PROSPECTS

	Forecast 1986 to 1987	Forecast 1987 to 1988	Average errors from past forecasts[1]
	per cent changes		percentage points
Output and expenditure at constant 1980 prices			
Domestic demand	4	4	1
of which:			
consumers' expenditure	5	4	1
general government consumption	1	1	1
fixed investment	3½	6½	2½
change in stockbuilding (as per cent of level of GDP)	0	0	½
Exports of goods and services	5½	3	2
Imports of goods and services	7½	6½	2½
Gross domestic product: total	4½	3	¾
manufacturing	5½	5	1½
Inflation			
Retail prices index	per cent changes		
1987 Q4 to 1988 Q4	4		1
1988 Q2 to 1989 Q2	4		2
GDP deflator at market prices	per cent changes on a year earlier		
Financial year 1987–88	5		1
Financial year 1988–89	4½		1
Money GDP at market prices	£ billion[2]		
Financial year 1987–88	424 (9½)		1½
Financial year 1988–89	456 (7½)		1½
Balance of payments current account	£ billion		
1988	−4		3
1989 first half (at an annual rate)	−4		4½
PSBR	£ billion[3]		
Financial year 1987–88	−3 (−¾)		1 (¼)
Financial year 1988–89	−3 (−¾)		4 (1)

[1] *The errors relate to the average differences (on either side of the central figure) between FSBR forecasts and outturn over the last ten years.*
[2] *Per cent change on previous financial year in brackets; average error shown relates to the forecast of the percentage change.*
[3] *Per cent of GDP at market prices shown in brackets.*

GROSS FIXED DOMESTIC CAPITAL FORMATION

		£ billion at 1980 prices	Per cent changes on previous year		
		1986	1986	1987	Forecast 1988
Business[1]		29·8	−3	4	9
of which:	non-oil business	27·8	−2	6	9
	manufacturing	7·1	−5	3½	11½
Private dwellings[2]		9·5	7	5½	2
General government		6·9	4	−1	1½
Total fixed investment		46·2	−½	3½	6½

[1] *Includes investment by public corporations.* [2] *Includes purchase less sales of land by persons, companies and public corporations, other than purchases of council houses.*

DOMESTIC DEMAND AND GDP

	Per cent changes on a year earlier		
		Forecast	
	1987	1988	1989 H1
Domestic demand	4	4	3
Exports of goods and services[1]	5½ (6½)	3 (4)	2 (3½)
Imports of goods and services[1]	7½ (8½)	6½ (6)	4 (4)
GDP[1,2]	4½ (5)	3 (3½)	2½ (3)
Manufacturing production	5½	5	3½

[1] *Non-oil shown in brackets.*
[2] *Average measure.*

WORLD ECONOMIC PROSPECTS

	Per cent changes on a year earlier			
		Estimate	Forecast	
	1986	1987	1988	1989 H1
Major seven countries[1]				
Real GNP	2½	3	2½	2
Real domestic demand	3¾	3	2½	2
Industrial production	1	3½	4½	3
Consumer prices	2	2½	3	3
World trade, at constant prices				
Total imports	5	4½	4½	3½
Trade in manufactures	2	5½	5	3½

[1] *US, Japan, Germany, UK, France, Italy and Canada.*

CURRENT ACCOUNT

	£ billion				
	Manufactures	Oil	Other goods	Invisibles	Current balance
1986	−5½	4	−7	8½	0
1987	−6½	4	−7½	8	−1½
1988 Forecast	−8½	2½	−6½	8½	−4

MANUFACTURING COSTS

	Per cent changes on previous year			
	Unit labour costs	Cost of materials and fuel[1]	Estimated total unit costs[2]	Output prices[1]
1986	4	−11	−½	4½
1987	0	5	1½	4½
1988 Forecast	2	−1½	1	4½

[1] *Producer prices excluding food, drink and tobacco industries.* [2] *Including costs of bought-in services.*

EXCHANGE RATE & COMPETITIVENESS

	Sterling index (1975=100)	Relative unit labour costs[1] (1980=100)
1985 Q4	80	86
1986 Q4	68	71
1987 Q4	75	80

[1] *Ratio of UK manufacturing sector's costs to those overseas.*

FORECAST AND OUTTURN

	1987 FSBR forecast	Outturn or latest estimate	Average errors from past forecasts
GDP (per cent change between 1986 and 1987)	3	4½	¾
RPI (per cent change between the fourth quarters of 1986 and 1987)	4	4	1
Money GDP (per cent change between 1986–87 and 1987–88)	7½	9½	1½
Current account of the balance of payments (1987, £ billion)	−2½	−1½	3
PSBR (1987–88, £ billion)	4	−3	4

EMPLOYMENT

	Thousands, seasonally adjusted, GB				
	Employees in employment		Self-employed	HM Forces	Employed labour force
	Male	Female			
September 1984 to September 1985	+55	+193	+90	−2	+336
September 1985 to September 1986	−82	+148	+71	−3	+134
September 1986 to September 1987	+24	+234	+207[1]	−4	+461

[1] *Figures for self-employment after June 1987 are projections based on self-employment growth over the previous six years.*

RETAIL PRICES INDEX

		Per cent changes on a year earlier		
			Forecast	
	Weight in 1987	1987 Q4	1988 Q4	1989 Q2
Food	16½	3½	2	2½
Nationalised industries	6	2½	6½	5¾
Housing	15	7	6½	8¼
Other	62½	3½	3½	3½
Total	100	4	4	4

Civil List increases

THIS YEAR'S Civil List, which covers, among other things, salaries and pensions paid in the staff of the 11 Royal households, amounts in £5,535,700, compared with £5,289,500 last year, an increase of 4.6 per cent overall.

Each household receives a 4 per cent rise, except the Duke of York, whose allowance goes up from £50,000 to £86,500, to meet the cost of his Royal duties.

Medium-term aim is to achieve price stability and create jobs

THE Financial Statement and Budget Report published yesterday detailed the medium-term financial strategy. It said:

The Medium Term Financial Strategy (MTFS) continues to provide the framework for the Government's economic policy, as it has done since 1980.

It is intended to bring inflation down further over a period of years, and ultimately to achieve price stability. Accordingly, economic policy is set in a nominal framework. Monetary and fiscal policies are designed to keep the growth of money GDP on a downward trend over the medium term. The MTFS is complemented by policies to improve the working of markets and the supply side of the economy. By encouraging enterprise, efficiency and flexibility, these policies improve the division of money GDP growth between output growth and inflation, thus assisting the creation of jobs.

Money GDP growth has come down from over 20 per cent at the start of 1980 to under 10 per cent last year. At the same time retail price inflation has fallen from over 20 per cent at its peak in 1980 to 4 per cent last year. In real terms the economy has grown steadily at 3¼ per cent a year on average since 1983, and is set for a further year of growth at around 3 per cent, with inflation approaching 4 per cent.

Objectives and the framework of policy: Monetary and fiscal policy is directed at maintaining conditions that will bring about a gradual reduction in the growth of money GDP over the medium term. The accompanying table shows the intended medium term path for money GDP, although there will inevitably be fluctuations around it in the short term.

Money GDP growth is expected to be around 9½ per cent in 1987-88, higher than forecast in last year's FSBR. The division of money GDP growth between output growth and inflation was better than forecast, a further sign of improvement in the supply performance of the economy. Output growth is currently estimated at 1¼ percentage points above last year's forecast; inflation (as measured by the GDP deflator) is estimated to have been about ½ percentage point higher than forecast.

For 1988-89, money GDP growth is forecast to be 7½ per cent. Real growth is forecast to slow down from its 1987-88 level. The current forecast for the increase in the GDP deflator in 1988-89 is a little above the projection in last year's MTFS.

For the later years, the growth of money GDP is projected to decline at much the same rate as envisaged last year. The medium term growth projection for the economy as a whole is unchanged from last year's MTFS, as is the medium term decline in inflation.

Monetary policy: A declining path for money GDP growth requires a reduction in monetary growth over the medium term. For M0, which has continued to be a reliable indicator of monetary conditions, the Government is setting a target range for 1988-89 of 1-5 per cent. This is the same as indicated in last year's MTFS. The ranges given in the accompanying table for later years are illustrative, but show a steady fall consistent with the declining path for money GDP growth.

While, as last year, there is no *explicit target range for broad money*, the assessment of monetary conditions continues to take broad money, or liquidity, into account.

With the increasing overlap between activities of banks and building societies, it is sensible to concentrate on measures of broad money that include deposits held with both. The authorities will seek to fund the net total of maturing debt, the PSBR, and any underlying change in foreign exchange reserves, by sales of debt outside the banking and *building society sectors*.

Interest rate decisions are based on a comprehensive assessment of monetary conditions so as to maintain downward pressure on inflation. Increases in domestic costs will not be accommodated either by monetary expansion or by exchange rate depreciation. Exchange rates play a central role in both domestic monetary decisions and international policy co-operation. In their communique of 23 December the Finance Ministers and Central Bank Governors of the seven major industrialised countries re-emphasised their common interest in more stable exchange rates.

Fiscal policy: It is now expected that there will be a net repayment of public sector debt in 1987-88, compared with a borrowing requirement of around 1 per cent of GDP forecast a year ago. This is only the second time since the early 1960s that there has been a budget surplus. Even if there had been no privatisation proceeds at all, the PSBR would have been under ½ per cent of GDP, smaller than in any year since 1969-70.

The PSBR is now assumed to be zero over the medium term: a balanced budget. This is a prudent and cautious level and can be maintained over the medium term. It also provides a clear and simple rule, with a good historical pedigree. In practice, there are likely to be fluctuations around this level from year to year. A PSBR of zero on the basis of current privatisation plans implies a PSBR of only 1 per cent of GDP in the absence of privatisation proceeds.

The recent strength of the economy and the buoyancy of government revenue have led to a budget surplus over the last year; and without the tax reductions announced in the Budget there would have been, on current forecasts, a surplus of some £7 billion in 1988-89. Continuing the gradualist approach which has always been a characteristic of the MTFS, only part of this room for tax reductions has been used. The PSBR for 1988-89 has been set at minus £3 billion, the same as the expected outturn in 1987-88. The PSBR to be set in future Budgets will as usual be reviewed in the light of circumstances at the time.

For the period to 1990-91, the public expenditure projections in the accompanying table incorporate the public expenditure plans shown in the public expenditure White Paper (Cm 288); gross debt interest payments are lower than projected in the White Paper, reflecting lower government borrowing, while other adjustments are a little higher. It is provisionally assumed that general government expenditure will grow by 1 per cent in real terms in 1991-92. Decisions on expenditure in 1991-92 will be taken in the 1988 Survey.

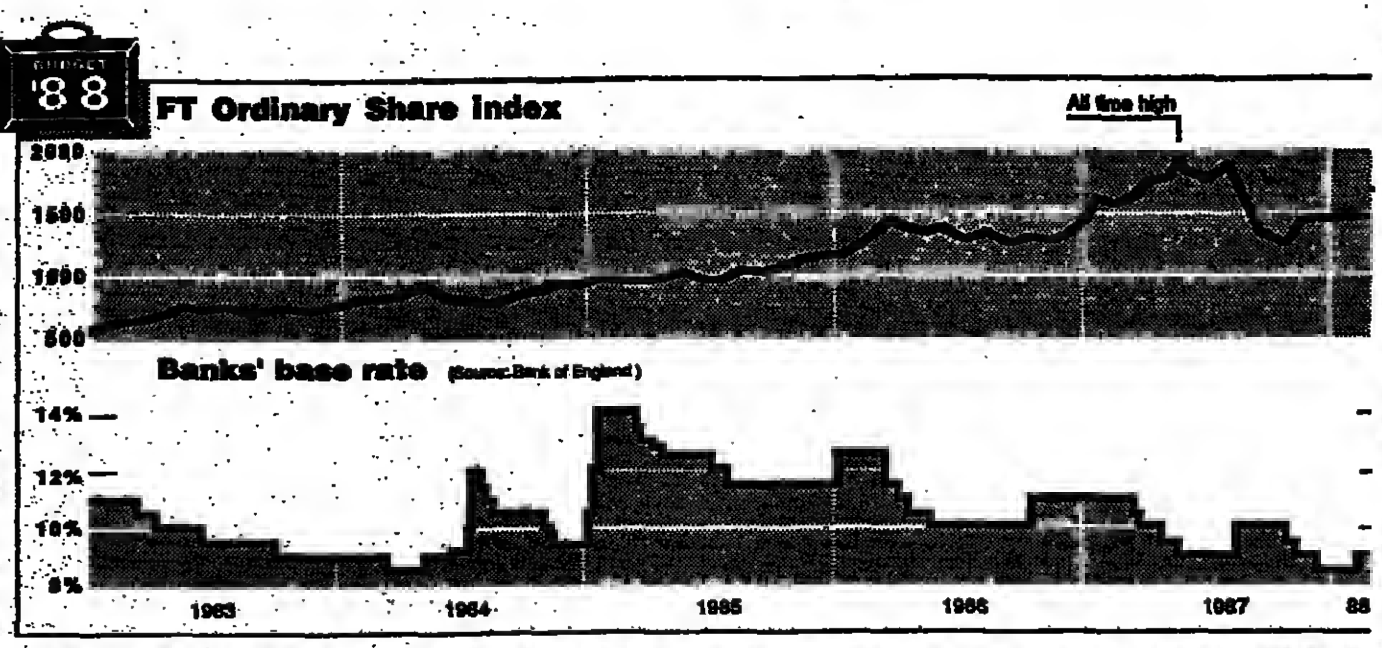
The assumptions about output growth and inflation that underlie the revenue projections are shown in the accompanying table. They are consistent with the figures for money GDP growth in the Public Sector Borrowing table. Oil prices are assumed to remain close to recent levels in 1988-89.

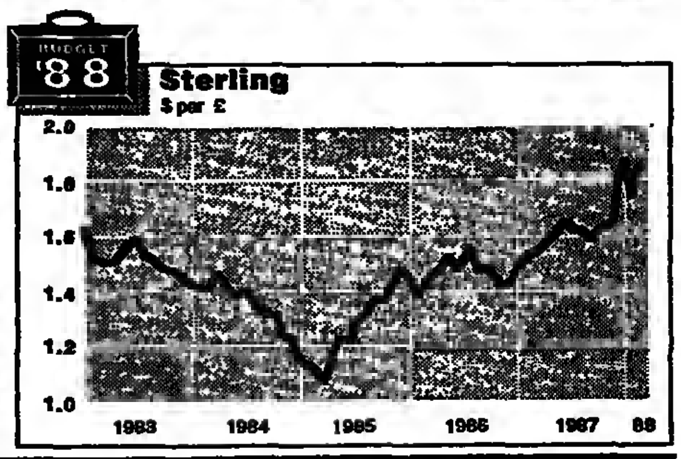
Public expenditure: Continued restraint in total public spending is a vital element of the Government's economic strategy. Reductions in borrowing and hence in the burden of debt interest, coupled with strong economic growth, are helping the Government to increase spending on priority programmes while at the same time achieving its objective of reducing public expenditure as a proportion of national income.

Revenue: The growth in government revenues in cash terms over the medium term will depend on the growth of incomes, spending and prices, as well as on policy decisions. On the unchanged policy assumptions set out above, general government receipts are expected to increase somewhat less than money GDP. Government revenues from the North Sea are projected to decline relative to money GDP as oil output falls. After taking account of the tax reductions announced in the Budget, non-North Sea revenues are projected to grow at a little under the rate of growth of non-oil money GDP.

Public sector borrowing: The projections of government expenditure and receipts are brought together in the accompanying table to provide projections of the general government borrowing requirement (GGBR), the PSBR and the fiscal adjustment.

Conclusion: The strength of the economy coupled with fiscal prudence has enabled the Government to achieve a balanced budget on a sustainable basis. The Government remains committed to continuing with the policies which have helped to bring this about, and to maintaining the progress in the medium term towards lower inflation, coupled with lower taxes and public spending as a share of GDP. The MTFS provides the financial framework within which the policies to achieve these objectives are set.





CENTRAL GOVERNMENT TRANSACTIONS

	£ billion 1986-87 Outturn	1987-88 Latest estimate	1988-89 Forecast
Receipts			
Taxes and royalties	104·6	115·3	122·1
National insurance and other contributions	26·6	28·7	31·6
Other	10·5	11·6	11·3
Total receipts	141·7	155·6	165·0
Expenditure			
Current expenditure on goods and services	49·4	52·9	55·8
Current grants and subsidies	77·4	80·5	82·6
Interest	16·5	17·0	17·0
Net lending[1], capital expenditure, and cash expenditure on company securities	2·9	2·0	3·2
Total expenditure	146·2	152·4	158·5[2]

[1] Excluding lending to local authorities and public corporations.
[2] Excluding any allocation from the Reserve.

REVENUE AND EXPENDITURE[1]

	Changes from 1987 MTFS projections, £ billion 1986-87	1987-88	1988-89	1989-90	1990-91
Expenditure					
1 Planning total	−1	−2½	+2½	+5½	+6
2 Other[2,3]	+1	+1	0	−1	−2
3 General government expenditure	0	−1½	+2½	+4½	+6
Receipts[3]					
4 North Sea taxes	0	−1	−3	−1	−1
5 Other taxes and contributions	+1	+4	+7	+8½	+9
6 Other[2]	0	0	0	+½	0
7 General government receipts	+1	+5	+6½	+7½	+8
8 Implied cumulative fiscal adjustment[4]	—	—	−3	−1½	−3
9 Public corporations' market and overseas borrowing[5]	0	−½	0	0	+½
10 PSBR	−½	−7	−7	−5	−5

[1] Rounded to the nearest £½ billion. Classification changes since the 1987 FSBR are included but their effect on both expenditure and receipts is small.
[2] Includes changes in debt interest and other items.
[3] The allocation of tax receipts between North Sea and other is affected by the treatment of advance corporation tax set off. See footnote 3 in Table 6B.3.
[4] Line 8 = lines 10−9−3+7.
[5] Public corporations' market and overseas borrowing is included in the planning total and in the PSBR, but not in general government expenditure. Changes in it are therefore deducted in line 2 and added back in line 9.

GROWTH OF M0[1]

1987-88	1988-89	1989-90	1990-91	1991-92
5	1-5	1-5	0-4	0-4

[1] Per cent changes on previous financial year. 1987-88: forecast. 1988-89: target range. 1989-90 onwards: illustrative ranges.

MONEY GDP GROWTH[1]

1987-88	1988-89	1989-90	1990-91	1991-92
9½	7½	6½	6	5½

[1] Per cent changes on previous financial year. See Table 2.3 for assumptions on output and inflation. The figure for 1988-89 is a forecast; the figures for subsequent years describe the Government's broad medium term objectives.

OUTPUT & INFLATION ASSUMPTIONS

	Per cent changes on previous financial year 1987-88	1988-89	1989-90	1990-91	1991-92
Real GDP					
Non-North Sea	5	3½	3	3	3
Total	4½	3	2½	2½	2½
Inflation					
GDP deflator	5	4½	4	3½	3

GENERAL GOVERNMENT EXPENDITURE

	£ billion, cash 1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
Public expenditure planning total[1]	139·2	146	157	167	176	184
Gross debt interest	17·6	17	17	17	17	16
Other adjustments	8·2	8	9	9	9	9
General government expenditure[2]	165·0	172	183	193	202	210
Privatisation proceeds	4·4	5	5	5	5	5
General government expenditure excluding privatisation proceeds	169·4	177	188	198	207	215

[1] For 1986-87 to 1990-91, the figures are taken from Table 5.1.
[2] General government expenditure, and its components, are rounded to the nearest £1 billion from 1987-88 onwards. General government expenditure is assumed to grow by 1% in real terms in 1991-92.

GENERAL GOVERNMENT RECEIPTS

	£ billion, cash 1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
Taxes on incomes, expenditure and capital	120·1	132	141	150	158	165
National insurance and other contributions	26·6	29	32	34	36	38
Interest and dividends	6·0	6	6	5	5	4
Other receipts	7·5	6	6	7	7	7
General government receipts[1]	160·1	174	185	195	205	214
of which North Sea tax[2]	4·8	5	3	3	3	3

[1] General government receipts, and its components, are rounded to the nearest £1 billion from 1987-88 onwards.
[2] Royalties, petroleum revenue tax (including advance payments) and corporation tax from North Sea oil and gas production (before advance corporation tax set off). This does not correspond exactly to tax receipts in the same financial year in respect of North Sea production. See footnote 3 to Table 6B.3.

PUBLIC SECTOR BORROWING[1]

	£ billion, cash 1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
General government expenditure	165·0	172	183	193	202	210
General government receipts	160·1	174	185	195	205	214
Fiscal adjustment from previous years[2]	—	—	—	—	3	4
Annual fiscal adjustment[2]	—	—	—	3	1	1
GGBR	4·9	−2	−2	1	1	1
Public corporations' market and overseas borrowing	−1·5	−1	−1	−1	−1	−1
PSBR	3·4	−3	−3	0	0	0
Money GDP at market prices	386	424	456	486	516	545
PSBR as per cent of GDP	0·9	−¾	−¾	0	0	0

[1] Net borrowing: positive; net debt repayment: negative. Rounded to the nearest £1 billion from 1987-88 onwards. Further details for 1987-88 and 1988-89 are provided in Tables 1.2 and 6.7.
[2] Means lower taxes or higher expenditure than assumed in lines 1 and 2.

Growth below last year

Continued from previous page

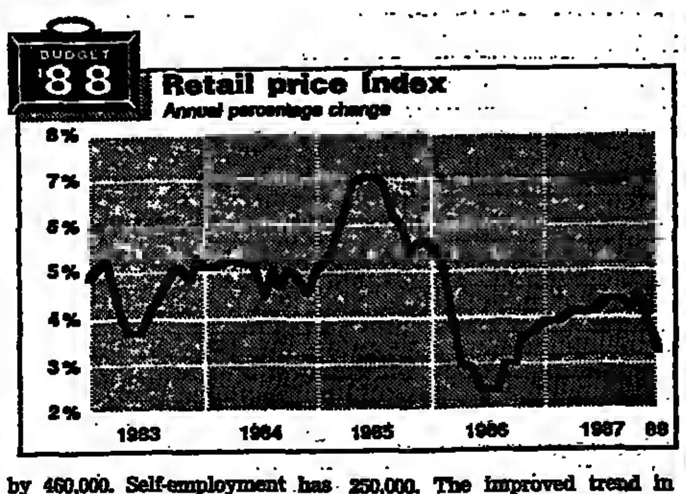
growth in underlying productivity should mean that manufacturing unit labour costs grow only slowly in 1988, though in other major industrialised countries no unit labour cost growth at all is forecast.

Manufacturers' profit margins rose significantly in 1987 for the third year in succession. There may be further increases in 1988 if producers take some advantage of falling import costs to raise profits, as they did in 1986. Over the longer term, high profitability *should* lead to continued growth in investment, capacity and productivity. Together these should enhance prospects for controlling industrial costs.

Retail price inflation has come down in the first quarter of 1988, aided by lower import costs and recent cuts in mortgage interest rates. It may edge up a little, partly as a result of the Budget proposals and the effects of local authority rate increases. There will also be some real increases in nationalised industry prices following a decline in real terms over the *past* three years. The RPI is forecast to rise by 4 per cent in the year to the fourth quarter of 1988. With substantial cuts in income tax, the tax and price *index* (TPI) will rise more slowly than the RPI during 1988. By the fourth quarter of 1988 it is likely to be 1¼ per cent higher than a year earlier.

The GDP deflator measures the price of domestic value added-principally unit labour costs and profits per unit of output. It does not include import prices. The *GDP deflator at market* prices is estimated to have risen by 5 per cent in 1987-88, following an increase of 3 per cent in 1986-87. The higher rate of increase in 1987-88 *is largely* accounted for by a recovery in North Sea profits, which had fallen by over 50 per cent in 1986-87 following the sharp fall in oil prices. The GDP *deflator* is forecast to rise by 4½ per cent in 1988-89.

Preliminary estimates suggest that the employed labour force in Great Britain rose sharply during 1987; in the year to September 1987 it is estimated to have risen by 460,000. Self-employment has grown particularly strongly, as many more people have taken advantage of the opportunities offered by the buoyant economic climate. Total employment has risen by over 1½ million since March 1983.



Productivity has also been *growing strongly*. In 1987 manufacturing productivity rose by almost 7 per cent. In the year to 1987Q3 (the latest period for which comparable data are available) UK *manufacturing* productivity rose faster than in any other major industrial country. It has now risen by an average of 4 per cent per annum since 1979. Underlying *growth* in labour productivity in manufacturing industry may now be higher than in the 1960s. This has been accompanied recently by a *substantial improvement in capital* productivity. Non-manufacturing output per man hour has risen by about 2 per cent a year since 1979, and by about 2½ per cent a *year since* 1983. *Output* per head has grown less than this, reflecting the large rise in part-time employment.

Seasonally adjusted adult unemployment in the UK has fallen in each of the last eighteen months. It has now come down by almost 650,000 since July 1986. Over the same period long term unemployment (over one year's duration) has fallen by around 250,000. The improved trend in unemployment has been mainly the result of strong growth of output and employment. Unemployment should continue to fall in the year ahead. But excessive pay settlements would threaten further progress.

Inflation in the fourth quarter of 1987 *was in line with the forecast* made a year ago while the current account deficit is now estimated to have been smaller than forecast. Although the data *on which* the latest estimates of GDP in 1987 are based are liable to revision, it is clear that both money and real GDP growth have been stronger than forecast. The PSBR in 1987-88 is likely to turn out about £7 bn lower than last year's forecast. This error — which is higher than the average error on past forecasts-reflects a *combination* of lower than expected general government expenditure and, in particular, higher than forecast tax revenues.

No forecast is complete with*out an indication* of error margins. An accompanying table sets out the average errors from FSBR forecasts over the past ten years, alongside the forecasts themselves. These average errors provide an indication of possible errors in the current forecast. Those items which represent the relatively small balance between large flows in either direction are particularly subject to error. For example, the flows on either side of the PSBR, including the revenues of the public corporations, are about £200 bn; and for the current account of the balance of payments exceed £150 bn.

Mr Lawson and his wife Therese

THE BUDGET: Details

The Chancellor's tax reform and reduction measures outlined

THE Financial Srtatement and Budget Report published yesterday by the Treasury announced the followiung:

The main tax changes proposed in the Budget are summarised below. A full list of changes is given in the accompanying table.

Income tax: The main income tax personal allowances and the limit of the basic rate band will be increased by twice tha amounts due under the statutory indexation provisions (based on the increase of 3.7 per cent in the RPI in the year to December 1987). This will mean that: the single person's and wife's earned income allowances will rise by £180 from £2,425 to £2,605; the married allowance will rise by £300 from £3,795 to £4,095;the additional personal allowance and widow's bereavement allowance will rise by £120 from £1,370 to £1,490.

Tha age allowance for those aged 65 to 79 will rise by £220 from £2,960 to £3,180 (single) and by £360 from £4,675 to £5,035 (married); the age allowance for those aged 80 and over will rise *by £240 from £3,070* to £3,310 (single) and by £360 from £4,845 to £5,205 (married); the income limit for age allowance will rise by £800 from £9,800 to £10,600; the basic rate limit will rise from £17 900 to £19 300 of taxable income.

The dependent relative allowance, the housekeeper allowance *and the allowance for the services* of a son or daughter will be abolished. From 6 April 1989 an unmarried couple will not be entitled to more than one additional personal allowance. The basic rate of income tax will be reduced to 25 per cent.There will be a single higher rate of income *tax of 40 per cent.*

Life assurance premium relief: The rate of premium relief for life assurance policies taken out before March 14, 1984, will be reduced to 12½ per cent from 6 April 1989.

Benefits in kind: Car benefit scale charges for 1988-89 will be set at twice their 1987-88 levels.

Mortgage interest relief: For loans taken out from August 1,1988, tax relief will be limited to the interest on £30,000 per residence, regardless of the number of borrowers. Relief on new loans for home improvements will be abolished from April 6, 1988. So will relief on new loans for the purchase *of residences for* dependent relatives and divorced or separated spouses.

Covenants: The tax treatment of covenants will be reformed and simplified.Non-charitable covenants made by individuals on or after Budget day will no longer attract tax relief, and *income from such covenants will* not be taxable in the hands of the recipient. Covenants to charities will not be affected, nor will non-charitable covenants made before Budget day.

Charitable giving: The limit on charitable donations qualifying for tax relief under the payroll *giving scheme will be doubled* from £120 to £240 a year from 1988-89.

Maintenance payments: The tax treatment of maintenance payments will be reformed. People who receive maintenance payments under new arrangements will not be liable to tax on their receipts; the person making the maintenance payments will get tax relief only for payments to a divorced or separated spouse, up to a limit of £1,490. Relief for existing maintenance arrangements will be preserved, and all divorced or separated spouses will be able to receive up to £1,490 of existing maintenance *payments free of tax.*

Personal Equity: The annual limit on investment in a Personal Equity Plan will be increased from £2,400 to £3,000.

Employee share schemes: Following consultation last year, the income tax charge on unapproved employee share schemes under *Section 79 of the Finance* Act 1972 will be eased.

Lloyd's: The present administrative arrangements for taxing members of Lloyd's will be simplified. The legislation on Lloyd's reinsurance to close will be modified to give relief to Lloyd's members who leave syndicates at the *end of the* underwriting year.

Trusts: The additional rate of income tax charged on discretionary and accumulation trusts will be reduced from 18 per cent to 10 per cent.

Capital gains: The base date for capital gains will be brought forward from 6 April 1965 to 31 March 1982; in general, only gains or losses accrued since 1982 will be brought into account for tax. This change will also apply to companies' gains. The present indexation provisions will continue to apply to gains accruing from 31 March 1982.

The capital gains tax annual exempt amount for 1988-89 will be reduced to £5,000 in the case of individuals and £2,500 in the case of most trusts. Gains, after deduction of the exempt amount and allowing for rebasing to 1982 and indexation, will be added to income and taxed at income tax rates (as if they were the marginal slice of income). From 6 *April 1988, 50 per cent of gains* between £125,000 and £500,000 will qualify for retirement relief, subject to the general conditions for the relief.

Inheritance tax: From Budget day, the threshold for inheritance tax will be increased from £90,000 to £110,000. Chargeable transfers above *this* amount will be taxed at a flat rate of 40 per cent. The £100,000 limit on the amount that can be given to a political party without incurring inheritance tax will be abolished.

Business tax: The small companies' rate of corporation tax will be reduced to 25 per cent for the financial year 1988. The rate of advance corporation tax (ACT) for 1988-89 will go down automatically to 1/3rd as a consequence of the reduction in the basic rate of income tax. The main rate of corporation tax for the financial year 1988 will be 35 per cent. In common with other business entertainment, the cost of entertaining overseas customers will no longer be an allowable business expense for tax purposes. This change will take effect from Budget day, except for commitments entered into before that date. From 1 August 1988 the VAT paid by businesses on this entertainment will no longer be deductible. A number of changes will be made to prevent tax charges arising on the conversion of building societies into public limited companies.

Business Expansion Scheme: Investment in private rented housing will be encouraged by extending the Business Expansion Scheme to give relief on investment in companies providing rented housing under the new assured tenancy scheme. A general limit of £500,000 will be set on relief under the Business Expansion Scheme for total investment in any one company in any period of 12 months, with a higher limit of £5m for investment in *qualifying companies* providing private rented housing or letting ships on charter.

Forestry: Incoma from tha occupation of commercial woodlands will be removed from the scope of income tax and corporation tax.

Oil taxation: The oil allowance for petroleum revenue tax (PRT) *will be reduced to 100,000 tonnes* per chargeable period for all Southern Basin and onshore fields given development consent on or after April 1, 1982. (At the same time the Secretary of State for Energy proposes to abolish royalty payments for these fields.) A new capital gains relief *will be provided for disposals of* oil licence interests in undeveloped areas wherever the consideration includes a work programme or another licence interest.

Company residence and migration: Section 482(1) (a) and (b) of tha Taxes Act 1970 will be repealed with effect from Budget day. In future companies will be resident for tax purposes in the UK if incorporated here, or centrally managed and controlled here. UK incorporated companies wishing to move their business abroad, or non-UK incorporated companies moving their residence abroad may do so without consent if they pay the tax due (including tax on accrued capital gains).

Stamp duties: Capital duty and unit trust instrument duty will be abolished with effect from midnight on Budget day.

VAT: From March 16, 1988, the registration limits will become £22,100 per annum and £7,500 per quarter. The provision for applying VAT to confectionery will be amended, with the main effect of taxing all cereal bars at the standard rate.

Excise duties: The duties on beer and wines will rise by the equivalent of 1p on a typical pint of beer, just under 4p on a bottle of table wine, and just over 6p on a bottle of sherry (all inclusive of VAT). The duty on spirits will remain unchanged. The minimum duty charge for beer will be abolished and provision will be made for restructuring the duties on lower strength mixed drinks.

The duty on leaded petrol will be increased by the *equivalent of* 5½p a gallon (inclusive of VAT). The duty on unleaded petrol will remain unchanged so that the tax differential in favour of unleaded petrol will increase to nearly 11p a gallon. The duty on derv will rise by the equivalent of just under 5p a gallon (inclusive of VAT).

The specific duties on cigarettes, hand-rolling tobacco and cigars will rise by the equivalent of just over 3p on a packet of 20 cigarettes and nearly 2p on a packet of 5 small cigars (inclusive of VAT). The duty on pipe tobacco will remain unchanged.

Tax administration: The VAT civil penalty system, introduced in 1985, has been reviewed and various easements are proposed.

In the light of recommendations by the Keith Committee, changes will be made to encourage people to notify the Inland Revenue if they are liable to tax; to improve the information powers of the Inland Revenue; to charge interest where payment to the Inland Revenue of income tax deducted by employers is delayed beyond the end of the tax year.

Independent taxation: A new system of taxation for married couples will be introduced in 1990. The details are set out in the section on married couples.

Nigel Lawson and his wife Therese leave No 11 Downing Street

Independent taxation for married couples

THE section on tax proposals in the financial statement and Budget Report announced the following:

The present system of taxing husbands and wives, under which a married woman's income is treated in law as if it belonged to her husband, has been unchanged since the earliest days of income tax. Green Papers published in 1980 and 1986 have considered how the system might be reformed. There is general agreement that the present law is no longer acceptable, and wide support for an early change to a new and more up-to-date system.

A major reform of the system is therefore proposed to give husbands and wives independence and privacy in their tax affairs and remove the tax penalties on marriage which can occur under the present system. The new system will be introduced from 6 April 1990 to allow time for the necessary preparations.

From 6 April 1990, husbands and wives will be taxed independently on their income and chargeable capital gains. This will mean that:

- husband and wifa will become independent taxpayers each with their own allowances and basic rate band to set against their own income (from whatever source); each will be responsible for handling their own tax affairs with the Inland Revenue;
- every taxpayer will be entitled to a personal allowance, equivalent to the allowance for single people under the present system;
- there will be a new married couple's allowance (based on the difference under the present system between the married allowance and the single allowance). This will be set first against the husband's income, but any unused amount may be transferred to the wife;
- married women will qualify in their own right for the *higher levels of personal* allowance for taxpayers aged 65-79 and those aged 80 and over. Higher levels of married couple's allowance will apply where either partner in a couple is aged 65-79 (or aged 80 and over);
- there will be transitional protection for the small number of couples whose allowances would be reduced as a result of the change to the new system;
- a husband's and wife's capital gains will be taxed independently; each partner will be entitled to the same exempt amount as a single person;
- the existing exemptions from capital gains tax and inheritance tax on transfers of capital between husband and wife will continue;
- it will be possible to abolish a number of provisions, including the wife's earnings election and separate assessment.

DIRECT EFFECTS OF CHANGES IN TAXATION

	£ million Estimated effect on receipts in: 1988-89 Changes from a non-indexed base	1988-89 Changes from an indexed base	1989-90 Changes from an indexed base
INLAND REVENUE			
Income tax			
1 Increase in single allowance of £180 and married allowance of £300	−1245	−625	−810
2 Increase in additional personal allowance and widow's bereavement allowance of £120	−15	−10	−10
3 Increase in age allowance of £220 (single) and £360 (married) for those aged 65 to 79	−90	−45	−55
4 Increase in age allowance of £240 (single) and £360 (married) for those aged 80 and over	−15	−10	−10
5 Increase in income limit for age allowance of £800	−5	−5	−10
6 Increase in basic rate limit of £1 400 to £19 300	−155	−75	−125
7 Abolition of minor personal allowances	+10	+10	+10
8 Restriction on additional personal allowance for unmarried couples	*	*	+5
9 Reduction of 2p in basic rate	−2190	−2190	−3000
10 Abolition of higher rates of income tax above 40p	−1025	−965	−2070
11 Reduction in relief on life assurance premiums	*	*	+70
12 Fringe benefits—car benefit scales	+260	+260	+310
13 Fringe benefits—car parking space	−5	−5	−5
14 Mortgage interest relief ceiling applied to residence	*	*	+25
15 Abolition of tax relief on new home improvement loans	+80	+80	+200
16 Abolition of tax relief on new loans for dependent relatives and divorced or separated spouses	*	*	*
17 Abolition of tax relief on new non-charitable covenants	+45	+45	+105
18 Payroll giving to charities—increase in donation limit to £240 a year	*	*	*
19 Change in rules for maintenance payments	−10	−10	−5
20 Change in additional rate on discretionary trusts	−5	−5	−10
21 Lloyd's—reform of administrative arrangements	*	*	*
22 Lloyd's reinsurance to close—relief for leavers	*	*	*
23 Unapproved employee share schemes—extension of charge	*	*	*
24 Employee priority in public offer of shares	*	*	*
25 Approved FA 1984 employee share option schemes—restricted shares	*	*	*
26 Assessing procedure for Schedule D	—	—	—
27 Redundancy payments—change to scale of charge	*	*	*
28 Withdrawal of top-slicing relief for tax charged on premiums for leases, etc	*	*	*
29 Amendments to tax treatment of overseas interest and dividends	*	*	*
Capital gains tax			
30 Rebasing capital gains of individuals and trusts to March 1982	*	*	−35
31 Annual exempt amount reduced to £5000	*	*	+15
32 Charging gains of individuals and trusts at income tax rates	+70	+70	+65
33 Retirement relief	*	*	−10
34 Building and co-operative society shares	*	*	*
35 Homes provided for dependent relatives	*	*	*
Income tax and capital gains tax			
36 Independent taxation of income and chargeable capital gains of husband and wife from 1990-91	*	*	−20[1]
37 Business Expansion Scheme—limit on relief	+5	+5	+25
38 Business Expansion Scheme—private rented housing	*	*	−40
39 Personal Equity Plans—increase in limit	*	*	−5
Income tax and corporation tax			
40 Rebasing capital gains of companies to March 1982	−25	−25	−235
41 Forestry—removal of commercial woodlands from scope of tax	*	*	*
42 Refunds of employee pension contributions	+15	+15	+15
43 Occupational pensions—minor amendments	—	—	—
44 End of year returns on PAYE and subcontractor deductions	—	—	—
45 Capital allowances—exempt persons	—	—	—
46 Capital allowances—safety at sports grounds	*	*	*
47 Capital allowances—abolition of quarantine premises relief	*	*	*
48 Withdrawal of relief for business entertainment of overseas customers	*	*	+5
Corporation tax			
49 Reduction in small companies' rate to 25 per cent	*	*	−50
50 Reduction in rate of ACT to 1/3rd of the amount of the distribution	−380	−380	+200
51 Company residence and migration—new rules	—	—	—
52 Definition of an investment trust	—	—	—
53 Indexation allowance—intra-group transactions	—	—	—
54 Intra-group share exchanges	—	—	—
55 Capital allowances—assured tenancies relief	—	—	—
Corporation tax and capital gains tax			
56 Rollover relief for satellites, spacecraft, milk quotas and potato quotas	*	*	−5
Income tax, corporation tax and capital gains tax			
57 Keith Committee administrative changes	+10	+10	+20
Income tax, corporation tax, capital gains tax and stamp duties			
58 Conversion of building societies into public limited companies—changes in tax rules	—	—	—
Oil taxation			
59 Reduction in PRT oil allowances for certain fields	+30	+30	+25
60 New capital gains relief for certain oil licence disposals	−5	−5	−5
61 PRT relief for certain tariff-related costs	—	—	—
Inheritance tax			
62 Increase of £20 000 in threshold and change to 40 per cent flat rate	−120	−100	−200
63 Abolition of limit on gifts to political parties	*	*	*
Stamp duties			
64 Abolition of capital duty and unit trust instrument duty	−90	−90	−100
65 Stamp duty and reserve tax on paired shares	—	—	—
TOTAL INLAND REVENUE	−4860	−4015	−6140
CUSTOMS AND EXCISE			
Value added tax			
66 Change in liability of certain confectionery	+5	+5	+10
67 Keith Committee—review of civil penalties	*	*	*
68 Increase in registration limits	*	*	*
69 Revised registration requirements	*	*	*
70 Revision of approved self-billing arrangements	+5	+5	+5
71 Revised treatment of business entertainment for overseas customers	*	*	*
Excise duties			
72 No change in rate of spirits duty	—	−25	−25
73 Increase in rate of beer duty	+75	+15	+15
74 Abolition of minimum duty charge for beer	*	*	*
75 Increase in rate of duty on cider and perry	+5	+5	*
76 Increases in rates of wine and made-wine duties	+25	+5	*
77 Revised duty regime for lower strength mixed drinks	*	*	*
78 Changes in rates of duty on petrol, etc	+275	+80	+50
79 Increase in rate of duty on derv	+75	+25	+25
80 No change in rates of minor oil duties	—	−5	−10
81 Increase in rates of duties on cigarettes, hand-rolling tobacco and cigars	+100	—	—
82 No change in rate of duty on pipe tobacco	—	*	−5
TOTAL CUSTOMS AND EXCISE	+565	+110	+65
Vehicle excise duty			
83 No change in VED on cars, light vans and in main lorry rates	—	−100	−110
84 Increase in certain other VED rates	+20	+20	+20
85 New VED class for exceptional loads	*	*	*
TOTAL VED	+20	−80	−90
TOTAL CHANGES IN TAXATION	−4275	−3985	−6165

* = Negligible — = Nil [1] Allows for some postponement of realisation of gains by married couples

How the figures in the accompanying table have been calculated:

MEASURES TO IMPROVE TAX COMPLIANCE

Taxpayers encouraged to reveal additional liabilities

The Inland Revenue issued the following statement after the Budget speech:

The Chancellor proposes in his Budget to introduce measures to encourage taxpayers to tell the Inland Revenue about additional tax liability *and to help the Revenue* uncover taxpayers who fail to do so, particularly where there is reason to believe that large amounts of tax are being lost.

These measure are based on recommendations of the Keith Committee and take account of extensive consultations with business and professional organisations.

Some of these measures will take effect immediately; others will not be implemented until 1992 at the earliest.

The proposals are designed to help the Inland Revenue to get the information it needs, and at the right time, so that the tax liabilities of individuals and businesses can be properly settled. The proposals cover:

- A *more realistic penalty* for failing to notify liability to tax.
- The provision of information *about* serious tax defaulters.
- The provision of information by Government Departments and public authorities; and by the Department of National Savings.
- Access by the Inland Revenue to records held on computer.
- An interest charge where employers delay payment to the Revenue *of PAYE and subcontractors* deductions.

Failure to notify liability to tax: It is proposed to introduce a more realistic penalty for failing to tell the Revenue about additional tax liability.

Most taxpayers who are not sent returns already pay the right amount of tax through PAYE deductions or other deductions at source. The Revenue needs no further information from them. Those whose full liability may not be met in this way, such as the self-employed or higher *rate* taxpayers, are *sent a* return every year – provided the Revenue knows about them. A taxpayer who has not received a return form but has further liability – for example because he has become self-employed – is required to tell the Revenue within twelve months after the end of the tax year. If he does not do so, the present penalty is a maximum of £100. This penalty is now very much out of date. It is also far less severe than the penalty of up to 100% (200% in the case of fraud) of the tax evaded *for someone who identifies him*self to the Revenue and fills in a tax return, but does so incorrectly.

It is proposed to make the penalty for not telling the Revenue about additional tax liability the same as the penalty for making an incorrect return – that is, up to 100% of the tax evaded. Penalties for failure to notify liability to capital gains tax and corporation tax will similarly be updated *to* up to 100% of the tax *evaded*.

It will also be made clear that the taxpayer must tell the Revenue about each additional source of income. For instance, although *he may already be a PAYE tax*payer, he must still tell the Revenue if he starts a business in his spare time. *Taxpayers* will not, however, have to tell the Revenue about additional sources of income if no more tax is due. For instance a PAYE taxpayer would have to the tell the Revenue about bank or building society interest (which is already taxed) only if he pays tax at higher rates and has not received a return.

The new rules will come into effect for the 1988/89 tax year. This means that the new penalty *will not start until 6 April 1990.*

Information to be supplied by Government Departments and Public Authorities:
The Revenue can ask businesses for certain kinds of information – for example, interest payments by banks, or payments by businesses *for services. This informa*tion helps to ensure that the recipients are taxed correctly. It can also help identify taxpayers who have made false returns or are working in the black economy.

The Revenue cannot, however, ask Government Departments or, with some exceptions, other public authorities for this kind of information. It is proposed to put Government Departments and public bodies on broadly the *same footing as businesses.*

The information covered by this change will include:

- Payments made by Government Departments or other public authorities for services.
- Payments of grants or subsidies out of public or EC funds; for example housing benefit paid directly to landlords by local authorities.
- Names of business licence holders; for example taxidrivers' *or market stall holders' licences* from a local authority. (Items such as dog or TV licences are not included).

Information about serious tax defaulters:
It is proposed to allow the Revenue to call for information about *persons whose identity is not* known to the Revenue, but who are suspected of serious tax default.

The Revenue can already ask for information about a particular, named taxpayer. But this authority does not cover documents giving the names of people the Revenue cannot identify, even where it is known that something is seriously amiss. This might happen, for example, where a tax avoidance scheme is marketed, which the Revenue investigate and establish to be not legally effective. The sponsor of the scheme may have *told* his clients that there is no tax liability on the profits covered by the scheme and no need to include them in their tax returns. There may therefore be reason to believe that there are large amounts of income which are liable to to tax, but which have not been reported to the Inland Revenue.

The proposal will enable the Inspector – but only after obtaining the approval of a Special Commissioner – to require the sponsor to reveal information about those using the failed scheme. The new power will be *restricted* to cases *of serious* tax loss; and an order from the Board of Inland Revenue will be needed before the Inspector may apply to the Commissioner. The person asked to supply the information will be able to challenge the order if he believes it to be unreasonably onerous.

Information from the Department of National Savings:
It is proposed to allow the Revenue to ask the Department of National Savings for information about a particular, named taxpayer, in the same way as they can already ask for information from any other bank.

It is proposed that all the changes concerning the provision of information to the Revenue should come into effect when the Finance Bill becomes law.

Interest on PAYE paid over late by employers:
It is proposed to introduce a power to charge interest in due course on PAYE *paid over late* by employers. This is to encourage employers to pay on time, and to compensate the Exchequer if they do not.

The majority of employers pay over the PAYE and NIC they deduct from their employees promptly or within a short time after the due date. But there are a significant number who are seriously behind with their payments; and, as the law does not provide for it, they incur no interest charge on the money withheld.

It is proposed to introduce an interest charge on PAYE and subcontractors deductions delayed beyond the normal end of year payment date. The charge will not be implemented until the necessary computer support is in place, which will not be before 1992.

The DHSS are to make similar provision to introduce an interest charge on late payments of Class 1 NIC (which is collected together with PAYE) and Class 4 NIC (which is collected together with Schedule D income tax).

Access to Computer Records:
The Revenue is allowed to inspect soma of a business's books for certain purposes, for instance, to see the pay records to check that PAYE deductions are being made correctly. It is proposed to extend this right of inspection to the same records where they are held on a computer. This is necessary as an increasing proportion of business records are now stored on computers.

Access to computer records would normally be arranged with the assistance of the business's own computer staff. Where, exceptionally, it was necessary for Revenue staff to have direct access, this would only be done by *officers with suitable com*puter experience.

Compliance cost assessments:
Assessments of the compliance costs of proposals affecting businesses are available. A copy of the Compliance Cost Assessment for this proposal can be obtained from Inland Revenue, Deregulation Unit, Room 77, New Wing, Somerset House, London, WC2R 1LB.

REMOVING TAX PENALTIES ON MARRIAGE

Changes for married couples

The Inland Revenue issued the following statement after the Chancellor sat down: The Chancellor proposes in his Budget a number of measures to remove tax penalties on marriage. The *changes affect: the relief* on mortgage interest; the additional personal allowance; taxation of incomes; taxation of capital gains; covenants; and maintenance payments.

Tax relief on mortgage interest: At present tax relief is available for interest on loans up to £30,000 for the purchase or improvement of a taxpayer's main residence. The £30,000 ceiling applies both to a single person and a married couple. So two single people buying together can get relief on borrowing up to £60,000, twice the limit for a married couple.

It is proposed to change this system by linking the limit to the property not the borrower. This will mean that married and unmarried couples buying a property will be treated on the same basis. *This change will apply* to new loans with effect from August 1 1988. Relief on existing loans will continue to be given on the present basis until they are repaid or replaced.

Additional Personal Allowance (APA): The APA is intended to be an allowance for a single person with responsibility for a child. However, where an unmarried couple have two or more children resident with them they can, at present, each claim an additional personal allowance (£1,490 for 1988-89). This is on top of the single person's allowance. Between them the couple can therefore qualify for substantially higher tax allowances in total than a married couple.

It is proposed to change the qualifying conditions for the APA so that an unmarried couple living together as husband and wife with children can claim no more than one APA between them. This will remove the advantage which these couples currently have over married couples. The new rules will be introduced from April 6 1989. Other individuals claiming the APA will not be affected by these changes.

Taxation of incomes: Under the present tax system a married woman's income is added to her husband's and taxed as his. The wife's earned income allowance (equal to the single person's allowance) can be set against a wife's earnings but not against *any savings income she may* have.

A married couple also share a *basic rate tax band against* their combined incomes. This means that some couples pay more tax than two single people with the same incomes and that tax is payable on the wife's income at her husband's highest rate. An election can be made for the wife's earnings to be taxed separately but this is only worthwhile if the couple's combined income is above a certain amount (£28,484 for 1988-89) and includes a minimum amount of wife's earnings (£5,579 for 1988-89). A wife's income from savings is always taxed as if it were her husband's income.

Under the new Independent Taxation system these tax penalties on marriage will be abolished from April 6 1990. Husbands and wives will be taxed independently on their own income. Husband and wife will each have: a full personal allowance available against any kind of income, and their own basic rate band.

Taxation of Capital Gains: Under the present system the capital gains of a married couple are added together for tax purposes and taxed as the husband's; and the couple share a single annual exempt amount (£5,000 for 1988-89) to set against their combined gains. This can mean that a married couple pay more capital gains tax than two single people with the same amount of gains.

Under the new Independent Taxation system, from April 6 1990 husband and wife will each be taxed independently on their capital gains; and have their own annual exempt amount equal to that of a single person.

Covenants: Under the present system, where one partner in an unmarried couple has unused personal tax allowances the couple can reduce their total tax bill by transferring income between them. If the partner with the larger income makes payments to the other under a Deed of Covenant the payer gets tax relief at the basic rate and the recipient's tax allowance can be set against the payments.

This contrasts with covenants between husband and wife, which do not affect the tax liability of a married couple; all the couple's income is taxed as if it belonged to the husband so that for tax purposes there is effectively no transfer of income between them.

The Chancellor proposes to reform and simplify the rules so that, under future Deeds of Covenant between individuals, the payer will no longer qualify for relief on the payments but the recipient will be exempt from tax on the money. (There will be special transitional protection for existing arrangements.)

Maintenance Payments: At present unmarried, divorced and separated parents can reduce their liability to tax by making maintenance payments under a Court Order directly to their children. The parent gets tax relief on the payments, while the children can set their personal allowances against the income and so pay either no tax or (if the payment exceeds the allowance) tax only at the basic rate.

Married couples cannot reduce their tax liability in this way. Payments they make to their children living with them remain the parents' income for tax purposes. This means that the parents do not get tax relief on the payments and the children are not taxed on the money they receive.

The Chancellor proposes a general reform of maintenance payments, one of the consequences of which will be that tax relief will cease to be available for maintenance payments to children under new maintenance arrangements. At the same time, the children will be exempt from tax on the maintenance payments they receive.

MORTGAGE INTEREST RELIEF - RESIDENCE BASIS AND MINOR CHANGES

Mortgage interest relief limit to be fixed at £30,000

THE Inland Revenue issued the following statement after the Chancellor sat down:

The Chancellor proposes in his Budget to fix the mortgage interest relief limit for 1988/89 at £30,000. The limit will be applied to the residence rather than, as hitherto, to the borrower. The relief is also being simplified by abolishing the relief for interest on new loans for the purchase of properties used as the only or main residence of a dependent relative or a former or separated spouse.

Residence basis – present position: At present unmarried people sharing the purchase of the same property as their only or main residence are each entitled to relief on the interest on loans up to £30,000. Married couples have to share the £30,000 between them.

Proposed change. From August 1 1988, relief on the interest on new loans applied to the purchase of a property used as the borrowers' only or main residence will be limited to the interest on £30,000 irrespective of the number of people borrowing to purchase that residence. This will bring unmarried people sharing the purchase of a home into line with married couples and end the situation where the reduction in the amount of mortgage interest relief available created a disincentive to getting married. It follows the suggestion in the Green Paper on the Reform of Personal Taxation (Cmnd. 9756) published in 1986.

Protected loans: The new rules will take effect from August 1 1988. Any loans taken out before that date will continue to qualify for relief by reference to the limit of £30,000 per borrower under the provisions of the present law, so long as all the conditions for relief are met. Protection will continue only for the life of the protected loan and will not be extended to replacement loans.

Effect of new residence basis on married couples: Married couples must already share the £30,000 relief limit and in most cases for the next two years prior to the introduction of independent taxation, the new residence basis will make no difference to the relief allowable to them. Mortgage interest relief is allowable whether the eligible loan is made to the husband or the wife or jointly to both and whether the interest is paid by the husband or wife.

Independent taxation: When independent taxation is introduced on 6 April 1990, wives will become taxpayers in their own right. Each will become entitled to an equal share of the limit applying at that time. For example, with a limit of £30,000 both husband and wife would be entitled to individual limits of £15,000 [illegible] loans up to £15,000. However, they will be able to elect jointly that relief on interest on loans up to the overall limit, whether to the husband or wife or jointly to both, can be allocated on a year-by-year basis between them in whatever proportions they wish and irrespective of which of them actually pays the interest.

Where one spouse pays a higher marginal rate of tax than the other, it will be possible to make an election to allocate the eligible relief to the first spouse and so ensure that it is all allowable at the higher marginal rate.

Wife's earnings election: Until 1990 married couples will be entitled to continue to elect for wives' earnings to be taxed separately from their husbands'. Mortgage interest relief within the limit has, in some circumstances, to be allocated between the husband and wife. The election described in the previous two paragraphs will be available to these married couples in both 1988/89 and 1989/90.

Effect of new residence basis on unmarried home sharers: Where two or more people who are not married to each other share an only or main residence and each takes a loan or a share in a joint loan to purchase an interest in the residence, the limit of £30,000 will be allocated between them in equal shares. For example, three such sharers will be entitled to individual limits of £10,000. Each sharer will qualify for relief on any interest he or she pays on his or her loan or share of a joint loan up to £10,000. Relief will not be allowable in any circumstances to one sharer in respect of interest paid by another.

Where a married couple shares with another person, the limit will be allocated two-thirds to the couple and one third to the other person. Within their share the *couple will be able to allocate the* relief between them as described for a couple on their own.

Transferability of unused portions of limit: There will be special rules permitting transferability of the limit in circumstances where otherwise unmarried sharers with unequal loans would not be able to use all the limit between them, even though the total loans equal or exceed the limit. The following example describes the situation:

A has a loan of £25,000. B has a loan of £8,000. C has a loan of £5,000. The rule described in the previous paragraph would give each a ceiling of £10,000 with the following result: A gets relief on £10,000 with £15,000 unrelieved. B gets relief on £8,000 with nil unrelieved. C gets relief on £5,000 with nil unrelieved. The total relief is thus £23,000.

In such circumstances there will be provision to allow the transfer of unused limit from a sharer who cannot use it to one or more who can. In this example B would transfer £2,000 to A and C would transfer £5,000 to A. A will then be entitled to relief on the interest on £17,000 and £30,000 of the total loans of £38,000 will qualify for relief.

Dependent relatives

Present position: At present relief is allowable within the limit on the interest on loans applied to the purchase or improvement of a property used as the only or main residence for a *dependent relative or former or* separated spouse of the borrower.

Proposed change: It is proposed to abolish this relief where a loan is applied for this purpose on or after 6 April 1988. Relief will continue for the life of existing loans which already qualify under the present law. Relief will still be available to the relative or spouse where they pay the *interest and have an interest in* the property.

Capital Gains Tax: At the same time, it is proposed to abolish the equivalent capital gains tax relief for homes provided free for a dependent relative. This change will apply for disposals on or after 6 April 1988. Relief will continue to be available where a home would have qualified for the relief on a disposal before 6 April.

Under present law, the level of *relief may be reduced where the* relative has not occupied the home throughout the taxpayer's period of ownership. Relief will be available on disposals on or after 6 April 1988: (i) for periods before that date during which a dependent relative occupied the property, and (ii) where a dependent relative is actually in occupation on 5 April, for the period until that *relative ceases to* occupy the home.

INHERITANCE TAX

Inheritance tax threshold to rise to £110,000

After the Chancellor sat down, the Inland Revenue issued the following statement:

The Chancellor proposes in his Budget to raise the threshold for inheritance tax from £90,000 to £110,000, to simplify the rate structure by replacing the present four rates of tax with a single rate of 40 per cent, to abolish the £100,000 exemption limit on gifts to political parties. These changes are to apply to transfers on and after 15 March 1988.

Threshold and Rates of Tax

Under the requirement for statutory indexation, the threshold and bands would have been increased by 3.7 per cent – the increase in the RPI for the year to December 1987 – thereby making Inheritance Tax payable on transfers above £94,000. The changes in the proposed scale are more generous.

The estimated additional cost of the proposed scale, compared with statutory indexation only, is £100m for 1988-89, and for 1989-90, £200m.

Pensions: minor changes

Alterations to pension schemes

After the Chancellor had sat down, the Inland Revenue issued the following statement:

In his Budget, the Chancellor proposes some minor changes to the tax rules introduced in the Finance (No 2) Act 1987 for occupational pension schemes and personal pension schemes.

The start date for personal pensions will be fixed at 1 July 1988 and the present retirement annuities tax regime will be extended until then.

Detailed changes will be made to ensure that the pensions tax rules in the Finance (No 2) Act 1987 will work in the way intended. In particular a technical change will be made to ensure that "minimum contributions" to a contracted-out personal pension scheme may, where appropriate, be backdated to 6 April 1987.

The safeguards for people who have a protected right by reference to the pre-1987 tax rules will be strengthened. The exemption from tax of lump sum retirement benefits will be extended to lump sums paid on the due date to people who defer retirement. (Exemption has previously been given by concession.)

The exemption from additional rate tax on the income of discretionary trusts presently enjoyed by most occupational pension schemes will be extended to the new personal pension schemes.

The tax charge on refunds of employee pension contributions will be increased to 20 per cent

ASSESSING PROCEDURE

Authority doubt removed

The Inland Revenue issued the following statement after the Chancellor sat down:

The Chancellor proposes in his Budget to remove any doubt about the Inland Revenue's statutory authority for the long-standing practice of making estimated assessments to income tax, in certain limited circumstances, based on the year to which the assessment relates.

The proposed legislation will apply to years of assessment from 1988/89 onwards.

The Chancellor's proposal is concerned with the time at which the Inland Revenue make assessments to tax on certain kinds of income. The income in question is: income from overseas, income from letting property furnished, interest not paid under the composite rate arrangements.

This sort of income may in certain circumstances be assessed to tax on what is generally known as the current year basis. That means that the amount of income chargeable to tax in any year is the amount which actually arises in that year.

The Inland Revenue's long-standing practice is to make assessments to tax on "current year basis" income.

MORTGAGE RELIEF

Home improvement relief abolished

The Inland Revenue issued the following statement after the Chancellor sat down:

In his Budget the Chancellor proposes to restrict mortgage interest relief to loans for the purchase of homes. Relief on new loans for home improvement is being abolished.

It is proposed to abolish relief on new loans for improvements made on or after April 6 1988. Relief will continue for existing eligible improvement loans

COVENANTS AND MAINTENANCE

Most new arrangements to be taken out of taxation system

THE Inland Revenue issued the following statement after the Chancellor sat down:

Covenants and maintenance

Introduction: When money changes hands between individuals – for example, within a family – the tax system is not normally involved at all. However, *if a legal agreement is involved* – a deed of covenant or a Maintenance Order – the tax consequences become very complicated indeed, and produce a host *of anomalies*. They also make a lot of unnecessary work for taxpayers and the Inland Revenue alike. The Government *has there*fore decided on a major simplification, taking most new arrangements out of the tax system as far as possible. Covenants to *charities* will not be affected.

Covenants: The case for change: With the exception of those to charities, most covenants are simply a transfer of income from one person to another. This is precisely the sort *of tax shelter that can no longer* be justified, now that income tax rates are lower. Apart from those to charity, the majority of covenants are made by parents to their student children. But the covenanting arrangements were not designed for this, and the result is an excessively convoluted way of getting money in to the hands of students.

The parent has to go through the legal process of making a covenant, and supplying evidence of payment, on top of the usual need to report his income to the local authority when applying for the grant. The Revanue then have to check the student's income, and repay him or her the tax that has been paid. As covenant income itself is taxable, many students are discouraged from taking holiday jobs, because *they may have used up* their personal allowance against the covenant, and thus have to pay tax on the first pound of their earnings. Covenants are also used by some *unmarried* couples to gain a tax advantage that is not available to married couples, which creates a tax penalty on marriage.

The Government's proposals: With the exception of covenants to charities, new covenants (made on or *after Budget Day*) will be taken out of the tax system altogether. The payers will not get tax relief, and the recipients will not have to pay tax on *the money* they receive. People who already have covenants will continue to get tax relief for as long as the covenant lasts.

For the parents of students, tax relief will no longer be available on new covenants. But to provide broad compensation, there will be a new lower parental contribution scale for new students. The Department *of* Education and Science and the Scottish Education Department, will be giving full details today. Those students will also be able to set the full value of their tax allowance *against* earnings, which gives them a greater incentive to boost their income with a holiday job.

Maintenance payments: The *case for change: The number of* people making or receiving maintenance payments has increased over recent years. The rules that face them are extremely complicated. Take the case of a divorced or separated man paying maintenance to his ex-wife. If the maintenance payments are paid gross, as most are, the ex-husband has to claim tax relief separately. If the wife is above the tax threshold, she has to pay tax on the payments she receives. In many cases, the wife's tax payment simply cancels out the husband's tax relief.

However, *some* maintenance payments are paid with tax already deducted. In that case, where the wife is below the tax threshold, she has to reclaim the tax from the Revenue. This makes more work for all, and delays the time when the wife *gets the full amount of the* money.

These arrangements also mean that better-off husbands paying large amounts of maintenance get full tax relief at their top marginal rate. On the other hand, wives receiving maintenance payments, who are often on relatively low incomes, may have to pay tax on the money, which uses up their personal allowance and can act as a disincentive to employment.

The system can also produce penalties on marriage. Some couples, generally well-off and well advised, have gained extra tax relief by remaining unmarried. They take out maintenance *orders against each other for the* cost of raising their children, and get tax relief on the payments, which married couples are unable to do.

The Government's proposals: The Government is therefore proposing a radical reform. People receiving maintenance payments under new Court Orders or agreements from Budget Day will not have to pay tax on them. A man maintaining his ex-wife (or vice versa) will get tax relief on the payments he makes, up to a limit equal to the difference between the married allowance and the single allowance (£1,490 for 1988-89).

This recognises the cost of helping to support an ex-wife, and maintain a second household. On present experience, this *limit will* more than cover the majority of payments to ex-wives and ex-husbands. No relief will be available for other maintenance payments. The new system will be much simpler *for taxpay*ers, the Inland Revenue and the Courts; will eliminate the tax penalty on marriage; and will reduce the tax burden on divorced wives who go out to work.

The new rules will apply to arrangements made on or after today. People who already pay or receive maintenance will continue under the present rules, though from 6 April a separated or divorced spouse receiving maintenance will not have to pay tax on the first £1,490 (equivalent to the difference between the married and the single allowances).There will also be some more detailed changes in April1989. *The payer will be able* to change over to the new system from 1988-89, or later, if he or she chooses.

Conclusion: These changes will bring a radical simplification of the tax system, sweeping away, in time, two different systems of taxing maintenance payments, the complications surrounding covenants, and the inevitable bureaucracy that follows both.

INDEPENDENT TAXATION OF HUSBAND AND WIFE

Reform will remove a number of penalties on marriage

After the Chancellor sat down, the Inland Revenue issued the following statement:

The Chancellor proposes in his Budget a major reform of the tax treatment of married couples. The centre-piece of this reform is a new system of Independent Taxation for husband and wife. From 6 April, 1990 this will bring:

● independent taxation of the income of husbands and wives;
● independence and privacy for married women in their tax affairs
● a new structure of income tax allowances:
– a full personal allowance for married women;
– a new married couple's allowance;
– higher allowances for elderly wives;
● independent taxation of capital gains.

The introduction of Independent Taxation will remove a number of tax penalties on marriage which occur under the present system. Further changes announced in the Budget will remove other penalties.

This statement explains the new system of Independent Taxation, how it will work and how it will affect married couples.

The new system will take effect from 6 April, 1990, the earliest possible date. Taxpayers themselves need take no immediate action about the new system.

Outline of independent taxation: the present system.
Under the present tax system a married woman's income is treated as her husband's and taxed as if it belonged to him. This rule has results which are widely regarded as inappropriate today.

First, husband and wife are treated as if they were one taxpayer, they share a single basic rate band and the married woman has no personal allowance of her own. The present wife's earned income allowance is available only against her earnings; it cannot be set against her income from savings. These features can mean that some couples pay more tax than two single people with the same incomes simply because they are married.

Second, the husband is legally responsible for the couple's tax affairs and for paying any income tax due on their combined income. He has to include his wife's income on any tax return he is asked to complete. This means that a married woman cannot have privacy in her financial affairs.

Over the years, special provisions have been introduced, including separate assessment and the wife's earnings election, designed to mitigate the consequences of the present system. But neither of these deals fully with the problems of privacy and independence; nor could they be adapted to do so, since they do not alter the basic rule that a married woman's income is treated as her husband's for tax purposes.

Independent taxation.
The Chancellor's proposals for Independent Taxation will sweep away the present tax system which has endured for nearly two centuries. They will remove the tax penalty on marriage which arises at present.

Independent Taxation will mean:
● independent taxation of the incomes of husbands and wives;
● privacy for married women in their tax affairs;
● a new structure of tax allowances.

Independence.
From 6 April 1990 husband and wife will be taxed independently on all their income. For the first time, married women will become taxpayers in their own right and married men will no longer be responsible for their wives' tax affairs.

Privacy.
Under Independent Taxation husbands and wives will each take responsibility for their own tax affairs and for paying the tax due on their own income. Where it is necessary for either husband or wife to complete a tax return they will have to give details only of their own income and not that of their partner. So, if they wish, a husband and wife will both be able to have privacy and independence in their affairs.

Some wives may prefer their husbands to fill in their tax return for them. That would still, of course, be possible but husband and wife would have to sign, and take responsibility for, their own returns.

At present only a minority of husbands are asked to fill in tax returns each year. The operation of the PAYE system and arrangements for deduction of tax at source from many forms of income from savings mean that annual returns are not required from many taxpayers. The same will be true under Independent Taxation: only a minority of husbands and wives will need to complete a tax return in any year.

New allowances.
Under the new system there will be a personal allowance available to everyone, male or female, married or single, which can be set against all types of income. For the first time married women will have a full tax allowance in their own right.

The new personal allowance will be equal in size to the single person's allowance under the old system.

There will also be a married couple's allowance equivalent to the difference under the old system between the married allowance and the single allowance. So the tax system will continue to recognise marriage. The new allowance will go to the husband unless he has insufficient income to use it himself in which case any unused part can be transferred to his wife. Since the personal allowance and the married couple's allowance will together be equal in size to the married man's allowance under the old system, a married man will suffer no reduction in his tax threshold as a result of the change to Independent Taxation.

There will be larger personal and married couple's allowances for elderly taxpayers aged 65 to 79, or 80 and over. Elderly married women will qualify for age allowance in their own right for the first time.

The existing single person's, married man's and wife's earned income allowances will disappear.

Level of allowances.
The change to the new allowances will be made in the 1990-91 tax year. In line with normal practice the value of the allowances will not be determined finally until 1990.

Transfer of married couple's allowance.
The new married couple's allowance will go to the husband in the first instance. But if the husband cannot make full use of it he will be able to transfer the unused part to his wife. This will ensure that a couple where the wife is the sole earner have the same allowances as a couple where the husband is the sole earner.

The personal allowance will not be transferable between husband and wife. But there will be transitional relief for some couples on the change to the new system.

Capital gains tax.
In parallel with the changes for income tax, Independent Taxation will also mean a new system for taxing the capital gains of husbands and wives.

At present, the capital gains of a husband and wife are added together and taxed as the husband's, and the couple share one annual capital gains exemption between them. The couple can, as for income tax, opt for separate assessment. This does not alter their total tax bill, but their liability is then divided between them in proportion to their respective gains.

From 6 April 1990, it is proposed that a husband and wife will be taxed independently on their capital gains, and that each will be entitled to a separate annual exemption. As a consequence, the provision which allows the losses of one partner to be set against the gains of the other will be abolished. But there will be no change in the rule under which transfers of assets between husband and wife give rise to no gain and no loss, so that no tax is payable on the transfer.

Inheritance tax.
The present arrangements, under which transfers between husband and wife are generally exempt from Inheritance Tax, will continue unaltered.

Timetable for introducing independent taxation.
Independent Taxation will be introduced from 6 April 1990, the earliest possible date. This is a major change to the income tax system and time is needed to make the necessary preparations.

What independent taxation will mean in practice.
Changes in the handling of married women's tax affairs. The new system will mean changes in the way a married woman's tax affairs are handled:
● all repayments of tax overpaid on her income will be made to her (and all payments of tax on her income will be collected from her rather than her husband);
● all tax assessments on her income will be made in her name;
● all correspondence from the tax office about her tax affairs will be addressed to her;
● if she has a small income which includes investment income taxed at source she may be able to obtain repayment of the basic rate tax deducted (but not composite rate tax on bank and building society interest which is not refundable in any circumstances);
● if she receives a National Insurance retirement pension on the basis of her husband's contributions it will be taxed as her income and her personal allowance will be available to set against it. (At present a pension based on a husband's contributions is taxed as the husband's income.)

Changes in the handling of married men's tax affairs.
The new system will also mean changes for married men:
● they will no longer be responsible for including their wives' income on any tax return they are asked to complete;
● they will no longer be responsible for paying any tax due on their wives' income where this is not deducted at source (for example under PAYE).

Changes affecting both husband and wife.
Many aspects of the present tax treatment of husband and wife reflect the rule that their incomes are added together and taxed as if the income all belonged to the husband. So tax reliefs due to either husband or wife may be set against the combined income of the couple; on the other hand where there are limits on relief the couple may have to share the limit between them. This will change under the new system.

(a) Calculation of income. Under Independent Taxation the taxable incomes of husbands and wives will be worked out independently. The same rules will apply as for other taxpayers, so tax reliefs will therefore normally be given only against the income of the partner who qualifies for relief instead of against the couple's combined incomes. Reliefs which will be given in this way include:
● relief for income tax losses;
● relief for interest paid (other than mortgage interest) where this is allowable for tax purposes;
● annual payments, for example payments under a charitable covenant;
● relief for payments under the Business Expansion Scheme.

(b) Limits on relief. Husband and wife will no longer have to share certain limits on the amount of some payments and expenditure which qualify for tax relief. The main changes are that husband and wife will each have:
● separate limits of £1,500 (or one-sixth of income) on relief for premiums under pre-1984 life assurance policies;
● separate limits of £40,000 a year on the amount paid for shares under the Business Expansion Scheme which qualifies for relief.

Income from assets held jointly by husband and wife.
The general rule will be that husband and wife will each be taxed on the income to which he or she is entitled. Special provisions will apply to income from assets which are held in their joint names for example, interest on a bank or building society deposit account. In such cases husband and wife will each normally be taxed on half the joint income from the account (or other asset). If, however, the couple do not own the asset in equal shares and they make a declaration to the tax office each partner will be taxed on the portion of the income to which he or she is entitled.

Other tax provisions affecting husband and wife.
There will be no change in the provisions which treat husband and wife as connected or associated with each other for certain tax purposes.

Abolition of redundant measures.
Two options at present available to married couples will no longer be required under Independent Taxation:

(a) The wife's earnings election. Some married couples where both partners are working find it beneficial to make a "wife's earnings election." The wife's earnings are then taxed as if she were a single woman with her own basic rate band. The husband loses the married man's allowance and gets a single person's allowance instead.

Under Independent Taxation all married couples will be taxed independently not just on their earnings but on every form of income. The wife's earnings election arrangements will therefore not be needed after 6 April 1990.

(b) Separate assessment. Some married people opt to be "separately assessed." This option does not affect the total tax the couple have to pay but allows the partners to fill in separate tax returns and to divide the payment of their total tax bill between them broadly in proportion to their incomes.

Under Independent Taxation these arrangements will no longer be needed since all husbands and wives will pay their own tax (and be responsible for their own tax returns where required).

Allowances for particular groups of people.
Structure of allowances.
The elderly.
As now, elderly people aged 65-79 or aged 80 and over will be entitled to higher levels of allowance if their incomes do not exceed the age allowance income limit (£10,600 for 1988-89). But for the first time elderly married women will be able to get the higher age-related allowances in their own right (instead of the wife's earned income allowance as at present).

● All elderly people, whether single or married, will qualify for a personal allowance on the basis of their own age. Elderly married women will be able to set this allowance against any income – including any National Insurance retirement pension they receive on the basis of their husband's contributions. (At present such pensions are taxed as the husband's income and the wife's earned income allowance cannot be set against them, though it can be set against a pension a wife receives by virtue of her own contributions).

● A husband will be entitled to a higher rate of married couple's allowance depending on the age of the *older partner* in the couple. So if, for example, a husband is under 65 but his wife is over 65 but under 80 he will be entitled to married couple's allowance of £1,855. As for younger couples the married couple's allowance can be transferred to the wife if the husband has insufficient income to use it.

● The age allowances (the personal and married couple's allowances for elderly people) will, as now, be subject to an income limit and will be withdrawn by £2 for every £3 of income by which the taxpayer's income exceeds the limit until the level of the personal allowance and married couple's allowance for those under 65 is reached.

● Husband and wife will, however, each have their own income limit, £10,600 at 1988-89 levels, which will apply separately to their incomes. This is instead of the present single limit which applies to the combined incomes of husband and wife.

Blind Allowance.
Married people who are blind will be entitled to the blind allowance. If both husband and wife are blind they will each be entitled to an allowance. (Under the present system if both are blind they get an allowance equal to twice the ordinary blind allowance.) If husband or wife cannot use part of their blind allowance because their income is too small they will be able to transfer the unused part of it to the other partner (whether blind or not).

Allowances in years when a marriage begins or ends.
Marriage and separation.
In the year in which a couple marry the married couple's allowance will be apportioned so that, for example, where the marriage takes place half way through the tax year, the husband will be entitled to half the allowance. The allowance will not be apportioned for the year in which a couple separate, or divorce or in which one spouse dies. These provisions will be very similar to those which apply under the present system.

Widows.
In the year in which a married woman is widowed and the following tax year she will be entitled (as at present) to the widow's bereavement allowance. Under Independent Taxation the allowance will be available against any of her income for the year in which her husband dies, not just income arising after his death, as it is at present.

Transitional measures.
Transitional measures will be introduced to smooth the change from the present system to the new structure of allowances.

These measures will give:
● transitional relief for couples where the husband has an income less than his personal allowance.
● transitional relief for husbands who qualify for married age allowance under the present system on the basis of their wife's age rather than their own.

Couples where the husband has a small income.
Under the present system a wife whose husband has little or no income of his own may have the whole of the married man's allowance as well as the wife's earned income allowance set against her earnings. But a married man whose wife has no earnings has only the married man's allowance to set against his income. This means that couples in similar circumstances can have very different tax bills depending on whether the husband or the wife is the main earner.

Under the new system only the married couple's allowance will be available for transfer to the wife if the husband cannot use it himself. So couples where the wife is the sole earner will get the same total allowances as couples where the husband is the sole earner. This could mean, however, that some couples would suffer a reduction in their allowances on the change to Independent Taxation. This would affect couples where the husband has an income which is less than his personal allowance in 1990-91.

For a transitional period, therefore, husbands in such couples will be able to transfer part of their unused personal allowance to their wives so that the couple do not suffer a reduction in the total allowances available to them.

Husbands in certain elderly couples.
At present husbands married to older wives may qualify for married age allowance on the basis of their wife's age. Under the new structure of allowances a man married to an older wife will receive the married couple's allowance based on his wife's age. But his personal allowance will be based on his own age. He might therefore suffer a reduction in allowances on the change to the new system. Married men who are affected will therefore be able to claim transitional relief.

Instead of the personal allowance they will be able to claim an allowance equivalent to the single age allowance frozen at its level before the change. This will ensure that they do not suffer any reduction in their allowances as a result of the introduction of the new system.

Changing to the new system.
Independent Taxation is a major change in the tax system both for the 11m married couples who pay income tax and the Inland Revenue. It will be introduced at the earliest possible date, from 6 April 1990, once the necessary preparations are complete.

Legislation.
The first step is to make the necessary legislative changes. The legislation will be included in this year's Finance Bill so taxpayers and their advisers will know how the new system will work well in advance.

Administrative Changes.
To bring the new system into operation will require a major programme of work in the Inland Revenue. Tax office staff will need to learn the new rules, forms and procedures will need to be changed and the computer systems dealing with PAYE and Schedule D assessing adapted.

Consequences for Taxpayers.
Taxpayers need take no immediate action themselves. Tax office staff will begin carrying out preparatory work affecting taxpayers early in 1989-90. For example, they will need to create new records for many married women (including those who are self-employed) and transfer information about wives from their husband's tax records to their own records.

Most of this work can be done from information already in tax offices and from returns which married men would be asked to make in any event in 1989-90. But the Revenue will also be seeking help from some taxpayers during 1989-90 to provide the information it needs to set up the new system and launch it smoothly.

Transitional changes.
In 1990-91 some married men will be asked to complete tax returns covering income of the 1989-90 tax year (the last year in which the present rules will apply). A husband will remain responsible for returning all his wife's income of that year. This will be the last year for which a combined tax return will be necessary.

To help ensure that tax offices dealing with married women receive directly the information they need to deal with taxpayers' affairs on the new basis some married women, mainly those who are self-employed, will also be asked to provide returns of their own 1989-90 income. (This will apply in particular where the income will form the basis of an assessment to tax for the year 1990-91. The payment of tax charged on such an assessment will, under Independent Taxation, be the responsibility of the wife.)

Returns of income of the year 1990-91 (which will be made after 5 April 1991) will be made independently by husband and wife.

Further announcements about the transition to the new system will be made when necessary.

Employers.
The new system will have a negligible effect on employers' compliance costs for PAYE.

Effects of the new system on income tax liabilities.
When Independent Taxation starts in 1990-91 many married women, and some married men, will find there is less tax to pay on their incomes. The estimates in this section are based on projected levels of income in 1990-91, and the 1988 Budget proposals for income tax rates and allowances indexed to 1990-91 levels.

About 1.6 million wives will have less tax charged on their income, because they will have their own personal allowances and their income will no longer be taxed as if it belonged to their husbands. The average reduction will be about £300 per annum (compared with the tax liability under the present rules, where the income is generally treated as the top slice of the husband's income).

About 1.2m of these wives have income of less than £5,000 per annum and 700,000 of them are elderly. The average tax reduction for these wives will be over £200 per annum but the size of the reduction will be less if the wife has only a small amount of investment income or a small pension.

About 500,000 husbands will gain directly from Independent Taxation.

Some 350,000 husbands in couples previously making the wife's earnings election will pay between £400 and £650 less tax as they will be able to claim the married couple's allowance. Also an additional 130,000 elderly husbands will be able to claim age allowance under Independent Taxation. Under the present system, these husbands are unable to claim because the couple's combined income is above the aged income limit.

Overall, over 2m individuals will find there is less tax to pay on their incomes after the introduction of Independent Taxation. About 70 per cent of these have incomes of less than £10,000 per annum.

The taxation of husband and wife: present system.
Husband and wife. The basis of the present system for taxing married couples is that:
● husbands' and wives' incomes are added together and taxed as if the incomes belonged to the husband; and
● the husband is formally responsible for handling the couple's tax affairs, claiming the allowances and paying the tax.

Personal allowances.
The main personal allowances for married couples are:
● the married man's allowance (£4,095 for 1988-89). This can be set against any income of the couple. In practice it is usually set against the husband's earnings under PAYE.
● the wife's earned income allowance (£2,605 for 1988-89 equal to the single person's allowance): This is technically an allowance available to the husband to set against his wife's earnings only. In practice it is usually given directly against the wife's earnings under PAYE.

Income above the personal allowances is taxed at:
● the basic rate (25 per cent for 1988-89) or, if it exceeds the basic rate limit (£19,300 for 1988-89),
● at the higher rate of 40 per cent.

A married couple have only one basic rate band between them.

Husband and wife: options.
The vast majority of married couples are taxed in accordance with this basic system. But in addition two options are available which affect how a small number of couples are taxed.

(a) Separate assessment was introduced in 1914. It enables each partner to be responsible for handling their own tax affairs. Either partner may apply for it. The total amount of tax the couple have to pay is not affected. The partners' incomes are still added together to work out their tax bill which is then divided up, broadly in proportion to their incomes. This is done by the Inland Revenue based on tax returns filled in separately by each partner. Each is then responsible for paying their own share of the bill.

(b) By contrast the wife's earnings election introduced in 1971 can reduce a couple's tax bill. A couple have to elect jointly for this option. The election means that:
● the wife's earnings are taxed as though she were a single woman. She has her own basic rate band; and
● the husband loses the married man's allowance and gets the single person's allowance instead. He has his own basic rate band.

The election is usually worthwhile only if the couple's combined income is over £26,484 in 1988-89 (of which the lower earner's share must be at least £6,575). The election does not affect the investment income of the wife which remains taxed as her husband's income.

The elderly.
People aged 65 and over have higher tax allowances. For 1988-89 the allowances for those aged between 65 and 79 are:
● £3,180 for a single person; and
● £5,035 for a married man in a couple where the older partner is aged between 65 and 79.

For those aged 80 and over the allowances are:
● £3,310 for a single person; and
● £5,205 for a married man in a couple where the older partner is aged 80 and over.

The age allowance is reduced where income exceeds £10,600 for 1988-89. This limit applies to single people and to the combined income of a married couple. The allowances are withdrawn by £2 for every £3 of income over the income limit until they are reduced to the corresponding basic allowance.

Capital Gains Tax.
Under the current system:
● husbands' and wives' chargeable gains and allowable losses are added together;
● the couple share a single annual exemption (£5,000 in 1988-89);
● the husband is responsible for the tax (unless there is an election for separate assessment).

INDEPENDENT TAXATION ALLOWANCES

	Independent Taxation: Main Allowances		Present System: Main Allowances	
(a)	Personal allowance (Age under 65)	£2,605	Single/wife's earned income allowance	£2,605
(b)	Personal allowance (Age 65–79)	£3,180	Single age allowance (Age 65–79)	£3,180
(c)	Personal allowance (Age 80 and over)	£3,310	Single age allowance (Age 80 and over)	£3,310
(d)	Married couple's allowance (Age under 65)	£1,490	Married man's allowance	£4,095 (a)+(d)
(e)	Married couple's allowance (Age 65–79)	£1,855	Married age allowance (Age 65–79)	£5,035 (b)+(e)
(f)	Married couple's allowance (Age 80 and over)	£1,895	Married age allowance (Age 80 and over)	£5,205 (c)+(f)

DEEDS OF COVENANT

Relief on payments made by individuals abolished

After the Chancellor sat down, the Inland Revenue issued the following statement:

The Chancellor proposes in his Budget to abolish tax relief for payments made by individuals under non-charitable Deeds of Covenant made on or after today. Recipients will be exempt from tax on the payments. This will greatly simplify the existing system.

The change will apply to covenants made to students by their parents, as well as to other covenants. Parental contributions to student grants will, however, be reduced for new students. Full details will be published by the Department of Education and Science.

Non-charitable covenants made by individuals on or after 15 March 1988 will have no effect for tax purposes. This means that payers should not deduct tax from covenanted payments and will not get tax relief on them, and recipients will not pay tax on them or be able to claim repayment.

The present rules will continue to apply to all covenants in favour of charities; other covenants made by individuals before 15 March 1988 provided they are received by the tax office by 30 June 1988.

Effect of Budget proposals
The payer will not be entitled to deduct tax from payments made under a new covenant (unless it is to a charity). If he covenants to pay £100, that is the amount he will pay and the recipient will receive. The Inland Revenue will not be involved. Details will be available from tax offices shortly.

Students
Student covenants made on or after 15 March 1988 will be treated in the same way as other new covenants. But since the payments will no longer be taxable, students will have the whole of their personal tax allowances to set against other income, such as vacation earnings. Furthermore, for new students there will be a new and more generous scale for assessing parental contributions to their maintenance grants.

A word of warning
A Deed of Covenant is a legal document and it is not permissible to put a date on it earlier than the date it is executed. This will result in refusal of any tax refund. It can also result in prosecution by the Inland Revenue for attempted fraud.

Other transfers of income
Covenants which transfer income from one person to another are "annual payments." The proposals will also apply to other "annual payments" which transfer income in a similar way from an individual to someone else; but they will not apply to interest payments or to payments made for commercial reasons in connection with the payer's business.

MAINTENANCE PAYMENTS

Recipients not taxed under new rules

After the Chancellor sat down, the Inland Revenue issued the following statement.

The Chancellor proposes in his Budget to simplify the tax treatment of maintenance payments.

For maintenance arrangements made from March 15 there are to be new rules. Anyone receiving maintenance payments under these new arrangements will not pay tax on them. People paying maintenance to their separated or divorced wives or husbands under the new arrangements will get relief up to a limit (which will be £1490 for 1988-89). Other maintenance payments, including payments to children, will not qualify for relief.

Payments under existing arrangements, including payments to children, will continue to be treated under the present rules for the coming year 1988-89; except that people who are separated or divorced and receiving payments under existing maintenance arrangements will be exempt from tax on the first £1490. From 1989-90 there will be a limit to the payer's relief, based on the relief given in 1988-89; but payers will be able to choose to switch to the new system if they prefer.

New court orders and agreements: The proposed new rules for new Court Orders made after today, and for maintenance agreements made on or after today, are:
-the recipient will not be liable to tax on any payments received;
-where one divorced or separated spouse is required to make payments to the other, the payer will qualify for tax relief (at basic and higher rates) for payments up to a limit equal to the difference between the single and married person's allowances (£1490 for 1988-89) until the recipient remarries;
-there will be no tax relief for other new maintenance or alimony payments;
-payments will be made gross (ie without deduction of tax).

Court Orders already in the pipeline: There will be transitional arrangements for Court Orders:
-applied for on or before 15 March 1988; and
-made by 30 June 1988.

In these cases, the present tax rules will apply in the same way as to existing Orders (see below).

Payments qualifying for relief: All periodical payments to a divorced or separated spouse which are required to be made under a UK Court Order or legally binding written agreement will count towards the £1490 limit. This will include, not only direct payments, but also such items as household bills which the payer is required to meet.

Some payments (for which tax relief is generally not available under the present rules) will not count. These include:
-payments which are voluntary and not made under a legal obligation;
-payments under a foreign Court Order or agreement;
-payments for which the taxpayer already gets tax relief in some other way;
-capital payments or lump sums.

Multiple payments: Where a person is paying maintenance to more than one divorced or separated spouse, all the payments will count towards the £1490 limit.

Interaction with Married Allowance: In the year of separation or divorce, married allowance is given for the whole tax year and is not apportioned. A husband will continue to get the married allowance for that year, and will also get maintenance relief up to the £1490 limit for payments made for the part of the year during which he is separated or divorced.

If a divorced husband remarries he will be able to claim married allowance as well as maintenance relief for payments to his ex-wife.

Existing court orders and agreements:
It is proposed that the existing rules will continue to apply for 1988-89 to payments made under:
-Court Orders made before 15 March 1988;
-Court Orders applied for on or before 15 March 1988 and made by 30 June 1988;
-maintenance agreements made before 15 March 1988 (provided that a copy of the agreement has been received by the Inspector of Taxes by 30 June 1988);
-Court Orders or agreements made on or after today which vary or replace such Orders or agreements.

New exemption for recipients: From 6 April 1988, however, the first £1490 of payments by one divorced or separated spouse to the other will be exempt from tax in the recipient's hands.

Limit to payer's relief and recipient's liability: After 5 April 1989 there will be special rules for all maintenance payments made under arrangements to which the existing rules continue to apply. Under these special rules:
-the payer will get tax relief on payments up to the level for which he got relief for 1988-89; and
-the recipient will be taxable on an amount not exceeding the amount which was taxable in 1988-89 (after allowing the exemption for a divorced or separated spouse).

In arriving at these limits for 1988-89, account will be taken of payments due in 1988-89 under any amending Court Order or agreement made before 6 April 1989.

All payments of maintenance due after 5 April 1989 will be paid gross – without tax deducted by the payer.

INCOME TAX REDUCTIONS

Tables to be used from April 6

After the Chancellor's speech, the Inland Revenue put out the following statement.

The Chancellor proposes in his Budget to reduce the basic rate of income tax for 1988-89 from 27 per cent to 25 per cent. The reduction will take effect from 6 April 1988.

The following notes give guidance about:

-(I)Deduction of income tax from annuities, interest and other annual payments.
(II)The effect on mortgage repayments under MIRAS.
(III)The effect on deeds of covenant.
(IV)Advance corporation tax and tax credit on dividends.
(V)The construction industry tax deduction scheme.
(VI)The additional rate on trusts.
(VII)Life assurance premium relief.

The Chancellor also proposes reforms of the tax treatment of non charitable covenants and of maintenance payments.

The guidance in these notes applies only where the payer will still be entitled to deduct basic rate tax from 6 April onwards from, for example, payments under a covenant made before 15 March 1988 or a covenant to charity.

(I)Deduction of income tax from annuities, interest etc.

The Chancellor of the Exchequer announced in his Budget Speech that the basic rate of income tax to be imposed for the year commencing 6 April 1988 will be 25 per cent. A Resolution to this effect will be placed before the House of Commons within the next few days and if passed will have *statutory effect under* the Provisional Collection of Taxes Act 1968.

Where there is a right or an obligation to deduct tax at the basic rate from the payment of annuities or other annual payments (including alimony), interest, royalties etc, the rate at which tax deductions should be made after 5 April 1988 will be the new rate. But, in the case of interest on securities of bodies corporate in the United Kingdom, including local authorities, deductions at the old rate of 27 per cent will be deemed to be legal deductions for a period of one month from the date of the passing of the appropriate Resolution, subject to adjustments later to give effect to the new rate for the year.

Where payments have been made on or after 6 April 1988 from which tax has been deducted at the rate of 27 per cent the over-deduction will be adjusted as follows:

-**Interest on United Kingdom Government Securities and foreign dividends paid in the United Kingdom.**

HM Inspector of Taxes, on application by the recipient, will either repay the excess tax deducted or make an appropriate allowance against some subsequent tax assessment. Applicants for repayment will need to furnish evidence (normally counterfoils obtainable from the paying agents or bankers) showing that they have suffered deductions of the amounts claimed.

-**Annuities, annual payments (including alimony), royalties etc and other types of yearly interest (including those received from companies or local authorities).**

It will be the payer's responsibility to repay or make good to the recipient the amount of any excessive deduction of tax made by reference to the earlier rate of 27 per cent. This will usually be done at the time of the next payment of a similar nature. Where a company or local authority security has been sold since an over-deduction of tax at 27 per cent the person entitled to the security at the time the over-deduction is made good will be entitled to the benefit of the adjusting payment.

This notice refers only very broadly to the effect of the change of the basic rate for 1988-89 on the deduction of tax provisions. The Inland Revenue will shortly be issuing a Circular (Deduction of Income Tax from Interest etc - 1988-89) setting out in more detail for payers and recipients the full implications in relation to each of the different types of payment which are subject to the deduction of income tax at source. Copies of this circular will be obtainable from the Office of any Inspector of Taxes.

Effect on MIRAS.

The reduction in the basic rate of income tax from 27% to 25% will affect the amount of the payments that borrowers make on loans within the MIRAS (mortgage interest relief at source) scheme.

Income tax should be deducted from interest payments within MIRAS in 1988/89 at the new basis rate of 25%. The effect will generally be a small increase in the interest payments to be made. For example, on a home purchase loan of £20,000 at a rate of interest of 10.25% the gross interest payable is £170.83 per month. At the present basic rate of 27% the net monthly interest payable is £124.70. Under the new basic rate of 25% this will be £128.12 per month.

These figures are purely illustrative. The actual amounts by which mortgage payments will alter depend on the borrower's circumstances including the loan balance outstanding in the year and the rate of mortgage interest charged. In due course building societies and other lenders will send details of revised payments to their borrowers. Any queries about the revised amounts payable should be addressed to the lenders concerned.

Effective date for basic rate change: The basic rate change takes effect from the start of the 1988/89 tax year on 6 April 1988. Deduction of tax at the rate of 25% applies to MIRAS interest payable and paid on or after that date. For accounting reasons it has been customary for some building societies and other lenders to regard interest for a year ended on 31 March as being that on which relief for the tax year ending on the following 5 April is calculated. Where this has been the practice and there will be problems in switching to the strict 5 April basis the new basic rate of 25% can be used for calculating payments from 1 April 1988.

But a borrower has the right to ask for the strict basis so that the present basic rate of 27% applies to the period between 1 and 5 April 1988. Borrowers involved who wish to opt for this strict basis should contact their lenders. If they do exercise this option, or did so in previous years it will be applied consistently during the life of the loan should there be further changes, either increases or reductions, in basic rate in future years.

Effect on deeds of covenant: The reduction in basic rate will alter the amount of tax to be deducted at source from payments due, from 6 April 1988 onwards, under deeds of covenant. The precise result will depend on whether the covenant is expressed in "gross" or "net" terms. Tax should not however be deducted at source from payments under new covenants made by individuals on or after 15 March 1988 unless the covenant is to a charity.

"Gross" covenants. Under a "gross" covenant, the covenantor undertakes to pay (for example) £100 a year less tax. At present, with a 27 per cent basic rate of tax, he deducts £27 tax and pays the recipient £73. The recipient may be able to reclaim all or part of the £27 tax from the Inland Revenue, depending on his or her personal circumstances.

The reduction of basic rate for 1988-89 means that the payer should deduct tax at 25 per cent instead of 27 per cent from payments due on or after 6 April 1988. Thus in the example above, the payer should deduct £25 tax and pay the recipient £75. Because the covenant is a legally binding deed, he will have a legal obligation to increase the net payment to £75. If his payments are made by standing order, he will need to change his standing order accordingly.

If the covenant is in favour of a charity, the payer may be entitled to relief at the higher rate of tax for the gross amount (in the example, £100).

"Net" covenants: Under a "net" covenant, the amount to be paid is fixed in net-of-tax terms. For example, the covenantor undertakes to pay each year such sum as will leave £73 after deducting tax at the basic rate for the year.

At present the £73 net represents £100 gross less £27 tax. The reduction in basic rate means that, for payments due on or after 6 April 1988, the £73 net will represent £97.33 gross less £24.33 tax. (ie. tax at 25 per cent on £97.33). The maximum tax available for repayment to the recipient is thus £24.33. Claims to repayment of tax should be based on a 25 per cent rate rather than 27 per cent.

If the covenant is in favour of a charity, any higher rate relief due to the payer will be given on £97.33.

Advance Corporation Tax and tax credit on dividends.

There will be no change in respect of dividends paid on or before 5 April 1988. Companies should pay advance corporation tax (ACT) at the rate of 27/73rds of the dividend. The tax credit will be a similar proportion of the dividend and will satisfy the income tax liability of the shareholder at the present basic rate of 27 per cent.

For dividends paid on or after 6 April 1988, companies should pay ACT at the rate of 25/75ths of the dividend. The tax credit will similarly be 25/75ths of the dividend and will satisfy the income tax liability of the shareholder at the new basic rate of 25 per cent.

When a dividend due to be paid on or after 6 April 1988 has already been declared, or a dividend voucher is already in the hands of the printer showing tax credit at the rate of 27/73rds, the company should nonetheless pay ACT at the new rate. If the taxpayer is liable to income tax at the basic rate only, he need take no further steps. If he is exempt from income tax the Inland Revenue will pay the tax credit to him at the new rate: if he is liable to the higher rates of income tax the tax office will calculate his income on the basis of the dividend received plus the tax credit at the new rate.

A company's accounting period may be broken into two separate accounting periods for the purposes of ACT. If the company makes a distribution on or before 5 April 1988 and subsequently makes or receives a further distribution, then the parts of the accounting period up to and after that date are treated separately for the purpose of accounting for ACT. Franked investment income received after the date of the change cannot be set-off against franked payments made before that date.

Construction industry tax deduction scheme.

The deduction rate, to be applied to payments to uncertificated sub-contractors, will be reduced in line with the basic rate to 25 per cent for payments made on or after Monday 31 October 1988. In the meantime, contractors should continue to make deductions at the existing rate of 27 per cent. Later in the year contractors who are known to be operating the deduction arrangements will be notified individually of the change in rate.

Additional rate on trusts.

The income of discretionary and accumulation trusts is charged to income tax at basic rate plus an additional rate. When the trustees distribute the income to beneficiaries, the beneficiary gets credit for the basic and additional rate tax paid by the trustees, and may claim repayment where appropriate.

At present the additional rate is 18 per cent and the overall rate on these trusts 45 per cent. Under the Budget proposals, the additional rate will be reduced to 10 per cent for 1988-89. The overall rate, basic plus additional, will therefore be reduced to 35 per cent. Beneficiaries receiving income in 1988-89 will get credit for 35 per cent tax, whether the income was received by the trustees in 1988-89 or in an earlier year.

Life assurance premium relief.

At present the rate of LAPR on policies taken out on or before 13 March 1984 is 15 per cent. Under the Budget proposals the rate will be reduced to 12.5 per cent for premiums paid on or after 6 April 1989.

In most cases, relief is given at source. In other words, the policyholder pays the premium to the insurance company net of tax relief. The company then reclaims the difference between the gross and net premium from the Inland Revenue.

For most policyholders, the reduction in the rate of LAPR will lead to a small increase in net premiums. But in a few cases, net premiums may be unchanged, leading to a decrease in gross premiums and, in consequence, a reduction in the sum assured under the policy. In due course, companies will send details of revised premiums to their policyholders.

Assessments of the compliance costs of proposals affecting business are available. A copy of the assessment for this proposed change in the rate of LAPR can be obtained from Inland Revenue, Deregulation Unit, Room 77, New Wing, Somerset House, *London* WC2R 1LB.

CODES.

The Chancellor proposes in his Budget

-increases in the main personal allowances of around 7½ per cent – twice the amounts required under statutory indexation;

-a reduction in the basic rate of income tax to 25 per cent;

-a single higher tax rate of 40 per cent for taxable income over the basic rate limit of £19,300. The following gives details of the changes and explains how these and other proposals will be implemented through PAYE.

Dependent relative allowance, housekeeper allowance[TAB] and son's or daughter's services allowance. It is proposed that these allowances should be abolished from 6 April 1988. Where a taxpayer is asked to complete a 1988-89 tax return references in the return to claims for these allowances for 1988-89 should be ignored.

Implementing the changes through PAYE.

Reduction in basic rate and changes in higher rate bands. New tax tables reflecting the changes will be used by employers on the first pay day after 14 June.

Changes in personal tax allowances, tax rates and car scale benefits.

a.Tax offices will be sending employers instructions to increase Modes ending in L, H, P or VM by the appropriate amounts shown in paragraph 1. The new increased codes will take effect on the first pay day after 14 June. Revised coding notices are not sent to employees when codes are increased automatically in this way.

b.The codes of the taxpayers listed below will be reviewed individually by the tax office who will notify both the employee and the employer of the revised code where a change is due. The revised codes will take effect on the first pay day after 14 June.

*employees whose codes begin with D or F or end in T;

*taxpayers claiming dependent relative allowance, housekeeper allowance or son's or daughter's services allowance;

*employees who have been liable at higher rates and who have *special adjustments in their PAYE* codes: for example, because their spouses are working ("excessive basic rate" adjustment) or they have a mortgage ("Interest - higher rate relief" adjustment);

*employees whose codes include adjustments for car benefits (see separate Press Release on Benefits in Kind for details of proposed changes to the car benefit scale charges for 1988-89).

Employers. Tax offices will

-issue to employers codes which have had to be changed as a result of the review under paragraph 5(b); these revised codes will either begin with D or F or end in T.

-instruct them to increase, by the appropriate amount, all remaining codes ending in L, H, P, or V.

New codes and tax tables will generally be issued by 16 May to be used on the first pay day after 14 June. Some of the new codes issued by the tax office will be lower than those already in operation. Tax offices will therefore advise employers that it is essential to use the new codes and the new tax tables for the first time on the same pay day. This will avoid a heavy deduction of tax *when the new code is first used.*

Increase in income limit for age allowance. Where a taxpayer or his wife is over 65 but their total income is above a certain limit, the age allowance is progressively withdrawn until it is reduced to the level of the basic *single or married allowance.* It is proposed to raise this income limit - below which age allowance is due in full - from £9,800 to £10,600.

Tax offices will amend codes which at present inclnde a reduced amount of age allowance, to take account of the increase in the income limit. Where the size of a taxpayer's income means that no allowance was given for 1987-88 but age allowance is now due, the tax office will revise the code where necessary in the course of examining 1988-89 tax returns from April onwards.

Any taxpayer who is not getting age allowance at present but a.expects to be entitled to age *allowance following the proposed* increase in the income limit and, b. has not been asked by the middle of April to complete a 1988-89 tax return,should write to his or her tax office giving details of income and date of birth.

Wife's earnings election. In *certain circumstances a married* couple may find it to their advantage to elect for the wife's earnings to be taxed separately. For 1988-89 an election will normally be worthwhile only if the couple's combined income before deduction of allowances and *reliefs is at least* £28,484 including wife's earned income of at least £6,579. (The corresponding figures for 1987-88 are £26,870 and £6,545.) Inland Revenue leaflet IR13 gives further details of the election.

SINGLE PERSONS AND MARRIED COUPLES: INCOME ALL EARNED

Charge for 1987-88				Proposed charge for 1988-89				
Income	Income tax	NIC[1]	Percentage of total income taken in tax and NIC	Adjusted income[2]	Income tax	NIC[1]	Percentage of total income taken in tax and NIC	Percentage change in income after tax and NIC
£	£	£	per cent	£	£	£	per cent	per cent
SINGLE PERSONS								
50.00	0.91	2.50	6.8	53.25	0.79	2.66	6.5	6.9
60.00	3.61	3.00	11.0	63.90	3.45	3.19	10.4	7.2
65.00	4.96	4.55	14.6	69.22	4.78	3.46	11.9	9.9
70.00	6.31	4.90	16.0	74.55	6.11	5.21	15.2	7.6
80.00	9.01	5.60	18.3	85.20	8.78	5.96	17.3	7.8
90.00	11.71	6.30	20.0	95.85	11.44	6.70	18.9	7.9
100.00	14.41	9.00	23.4	106.50	14.10	9.58	22.2	8.1
120.00	19.81	10.80	25.5	127.80	19.43	11.50	24.2	8.4
140.00	25.21	12.60	27.0	149.10	24.75	13.41	25.6	8.6
160.00	30.61	14.40	28.1	170.40	30.08	15.33	26.6	8.7
180.00	36.01	16.20	29.0	191.70	35.40	17.25	27.5	8.8
200.00	41.41	18.00	29.7	213.00	40.73	19.17	28.1	8.9
250.00	54.91	22.50	31.0	266.25	54.04	23.96	29.3	9.1
300.00	68.41	26.55	31.7	319.50	67.35	27.45	29.7	9.6
305.00	69.76	26.55	31.6	324.82	68.68	27.45	29.6	9.6
350.00	81.91	26.55	31.0	372.75	80.66	27.45	29.0	9.6
400.00	96.60	26.55	30.8	426.00	94.69	27.45	28.7	9.8
500.00	139.65	26.55	33.2	532.50	137.29	27.45	30.9	10.2
600.00	187.90	26.55	35.7	639.00	179.89	27.45	32.4	12.0
MARRIED COUPLES[3]								
80.00	1.89	5.60	9.4	85.20	1.61	5.96	8.9	7.1
90.00	4.59	6.30	12.1	95.85	4.28	6.70	11.5	7.3
100.00	7.29	9.00	16.3	106.50	6.94	9.58	15.5	7.5
120.00	12.69	10.80	19.6	127.80	12.26	11.50	18.6	7.8
140.00	18.09	12.60	21.9	149.10	17.59	13.41	20.8	8.0
160.00	23.49	14.40	23.7	170.40	22.91	15.33	22.4	8.2
180.00	28.89	16.20	25.0	191.70	28.24	17.25	23.7	8.4
200.00	34.29	18.00	26.1	213.00	33.56	19.17	24.8	8.5
250.00	47.79	22.50	28.1	266.25	46.88	23.96	26.6	8.7
300.00	61.29	26.55	29.3	319.50	60.19	27.45	27.4	9.3
305.00	62.64	26.55	29.2	324.82	61.52	27.45	27.4	9.3
350.00	74.79	26.55	29.0	372.75	73.50	27.45	27.1	9.3
400.00	88.29	26.55	28.7	426.00	86.81	27.45	26.8	9.3
500.00	127.80	26.55	30.9	532.50	125.83	27.45	28.8	9.7
600.00	174.72	26.55	33.5	639.00	168.43	27.45	30.7	11.1

[1] National Insurance Contributions are at the standard Class 1 rate for employees contracted-in to the State additional (earnings related) pension scheme.

[2] The adjusted incomes shown for 1988–89 are for illustration. They have been obtained by increasing the corresponding incomes in 1987–88 by 6½ per cent.

[3] Calculations assume that only the husband has earned income.

PERSONAL ALLOWANCES

	1987-88	Proposed increase		1988-89 Proposed level
	£	£	per cent	£
Single person's allowance and wife's earned income allowance	2,425	180	7.4	2,605
Married man's allowance	3,795	300	7.9	4,095
Additional personal allowance and widow's bereavement allowance	1,370	120	8.8	1,490
Single age allowance (age 65–79)	2,960	220	7.4	3,180
Married age allowance (age 65–79)	4,675	360	7.7	5,035
Single age allowance (age 80 and over)	3,070	240	7.8	3,310
Married age allowance (age 80 and over)	4,845	360	7.4	5,205
Age allowance income limit	9,800	800	8.2	10,600

RATES AND RATE BANDS

Rate of tax	1987–88 taxable income	Proposed increase in starting point		1988–89 proposed taxable income
per cent	£	£	per cent	£
25	-	-	-	0–19,300
27	0–17,900	-	-	-
40	17,901–20,400	1,400	7.8	Over 19,300
45	20,401–25,400	-	-	-
50	25,401–33,300	-	-	-
55	33,301–41,200	-	-	-
60	Over 41,200	-	-	-

SINGLE PERSONS: INCOME ALL EARNED

	Charge for 1987-88		Proposed charge for 1988-89		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
3,000	155	5.2	99	3.3	56	1.9
4,000	425	10.6	349	8.7	76	1.9
5,000	695	13.9	599	12.0	96	1.9
6,000	965	16.1	849	14.2	116	1.9
7,000	1,235	17.6	1,099	15.7	136	1.9
8,000	1,505	18.8	1,349	16.9	156	2.0
9,000	1,775	19.7	1,599	17.8	176	2.0
10,000	2,045	20.4	1,849	18.5	196	2.0
12,000	2,585	21.5	2,349	19.6	236	2.0
14,000	3,125	22.3	2,849	20.4	276	2.0
16,000	3,665	22.9	3,349	20.9	316	2.0
18,000	4,205	23.4	3,849	21.4	356	2.0
20,000	4,745	23.7	4,349	21.7	396	2.0
25,000	6,812	27.2	6,063	24.3	749	3.0
30,000	9,171	30.6	8,063	26.9	1,108	3.7
40,000	14,384	36.0	12,063	30.2	2,321	5.8
50,000	20,203	40.4	16,063	32.1	4,140	8.3
60,000	26,203	43.7	20,063	33.4	6,140	10.2
70,000	32,203	46.0	24,063	34.4	8,140	11.6

MARRIED COUPLES: INCOME ALL EARNED

4,000	55	1.4	0	0.0	55	1.4
5,000	325	6.5	226	4.5	99	2.0
6,000	595	9.9	476	7.9	119	2.0
7,000	865	12.4	726	10.4	139	2.0
8,000	1,135	14.2	976	12.2	159	2.0
9,000	1,405	15.6	1,226	13.6	179	2.0
10,000	1,675	16.8	1,476	14.8	199	2.0
12,000	2,215	18.5	1,976	16.5	239	2.0
14,000	2,755	19.7	2,476	17.7	279	2.0
16,000	3,295	20.6	2,976	18.6	319	2.0
18,000	3,835	21.3	3,476	19.3	359	2.0
20,000	4,375	21.9	3,976	19.9	399	2.0
25,000	6,195	24.8	5,467	21.9	728	2.9
30,000	8,485	28.3	7,467	24.9	1,018	3.4
40,000	13,631	34.1	11,467	28.7	2,164	5.4
50,000	19,381	38.8	15,467	30.9	3,914	7.8
60,000	25,381	42.3	19,467	32.4	5,914	9.9
70,000	31,381	44.8	23,467	33.5	7,914	11.3

Calculations assume that only the husband has earned income.

SINGLE PERSONS AND MARRIED COUPLES AGED 65-79: INCOME ALL EARNED

SINGLE PERSONS						
3,000	11	0.4	0	0.0	11	0.4
4,000	281	7.0	205	5.1	76	1.9
5,000	551	11.0	455	9.1	96	1.9
6,000	821	13.7	705	11.8	116	1.9
7,000	1,091	15.6	955	13.6	136	1.9
8,000	1,361	17.0	1,205	15.1	156	2.0
9,000	1,631	18.1	1,455	16.2	176	2.0
10,000	1,937	19.4	1,705	17.0	232	2.3
11,000	2,315	21.0	2,022	18.4	293	2.7
12,000	2,585	21.5	2,349	19.6	236	2.0
14,000	3,125	22.3	2,849	20.4	276	2.0
MARRIED COUPLES[1]						
5,000	88	1.8	0	0.0	88	1.8
6,000	358	6.0	241	4.0	117	2.0
7,000	628	9.0	491	7.0	137	2.0
8,000	898	11.2	741	9.3	157	2.0
9,000	1,168	13.0	991	11.0	177	2.0
10,000	1,474	14.7	1,241	12.4	233	2.3
11,000	1,924	17.5	1,558	14.2	366	3.3
12,000	2,215	18.5	1,975	16.5	240	2.0
14,000	2,755	19.7	2,476	17.7	279	2.0

[1] Calculations assume that the wife has no earnings or pension in her own right.

For *incomes above these levels, the figures are the same as those in* Tables 1 and 2.

MARRIED COUPLES WITH TWO CHILDREN: INCOME ALL EARNED

1987-88					1988-89					
Income[1]	Child Benefit	Income tax	NIC[2]	Net income[3]	Adjusted income[4]	Child benefit	Income tax	NIC[2]	Net income[3]	Percentage change in net income
£	£	£	£	£	£	£	£	£	£	per cent
80.00	14.50	1.89	5.60	87.01	85.20	14.50	1.61	5.96	92.13	5.9
90.00	14.50	4.59	6.30	93.61	95.85	14.50	4.28	6.70	99.37	6.2
100.00	14.50	7.29	9.00	98.21	106.50	14.50	6.94	9.58	104.48	6.4
120.00	14.50	12.69	10.80	111.01	127.80	14.50	12.26	11.50	118.54	6.8
140.00	14.50	18.09	12.60	123.81	149.10	14.50	17.59	13.41	132.60	7.1
160.00	14.50	23.49	14.40	136.61	170.40	14.50	22.91	15.33	146.66	7.4
180.00	14.50	28.89	16.20	149.41	191.70	14.50	28.24	17.25	160.71	7.6
200.00	14.50	34.29	18.00	162.21	213.00	14.50	33.56	19.17	174.77	7.7
250.00	14.50	47.79	22.50	194.21	266.25	14.50	46.88	23.96	209.91	8.1
300.00	14.50	61.29	26.55	226.66	319.50	14.50	60.19	27.45	246.36	8.7
305.00	14.50	62.64	26.55	230.31	324.82	14.50	61.52	27.45	250.35	8.7
350.00	14.50	74.79	26.55	263.16	372.75	14.50	73.50	27.45	286.30	8.8
400.00	14.50	88.29	26.55	299.66	426.00	14.50	86.81	27.45	326.24	8.9
500.00	14.50	127.80	26.55	360.15	532.50	14.50	125.83	27.45	393.72	9.3
600.00	14.50	174.72	26.55	413.23	639.00	14.50	168.43	27.45	457.62	10.7

[1] Calculations assume that only the husband has earned income.

[2] National Insurance Contributions are at the standard Class 1 rate for employees contracted-in to the State additional (earnings related) pension scheme.

[3] Net income is earnings, less tax and National Insurance Contributions, plus child benefit. It does not include any income-related benefit.

[4] The adjusted incomes shown for 1988–89 are for illustration. They have been obtained by increasing the corresponding incomes in 1987–88 by 6½ per cent.

THE BUDGET: Analysis

CAPITAL GAINS TAX

A change that rebases history

THE BUDGET changes to CGT means that taxpayers must consider their CGT position carefully between now and April 6. Before April 6, the first £6,600 of gains will be exempt, with tax thereafter charged at 30 per cent. The tax will be based, however, on gains since 1965. These include gains attributable solely to inflation between 1965 and 1982, when indexation relief was introduced.

After April 5, gains on disposals will be taxed once they exceed £5,000 and then at the individual's highest income tax rate, either 25 or 40 per cent. Gains accruing prior to April 1982 will, however, be wholly exempt from tax after 5 April 1988. Clearly, higher rate taxpayers with relatively recent gains should consider realisation now, while those *with long established gains* should wait. As tax is only paid on disposal, however, the acceleration of the tax charge that will result from such action should also be taken into account.

The treatment of gains as effectively part of an individual's income is consistent with the change made in 1987 for companies. Since 17 March 1987 companies' gains have been taxed at normal corporation tax rates (25 and 35 per cent) rather than 30 per cent. Gains of life assurance companies attributable to policyholders, however, remained taxable at 30 percent. This will continue to be the case while the review of life assurance taxation – which has been going on since July 1987 – continues. For trustees and personal representatives, tax will be charged at the basic rate on gains while discretionary trusts will pay tax at 35 per cent.

The exemption of pre-1982 *gains should be a major encour*agement to taxpayers to unlock assets and switch long standing investments where the CGT cost of doing so was previously prohibitive. This change applies to both corporate and individual taxpayers; the life assurance companies are likely to be among the major beneficiaries.

However, the proposal does not offer any wider relief for reinvestment. Although for the future only the real gain accruing on an asset since March 1982 will be subject to tax, disposing of an investment will still give rise to a tax charge, subject only to the annual exemption. The fact that it is intended to reinvest the proceeds will not afford any relief.

Subjecting capital gains to the same rate of tax as income could also be regarded as objectionable as gains tend to accrue over a period but are taxed only when realised. To tax them in e single year could result in e heavier tax burden.

Once the reforms of the personal tax system are introduced in 1990, e husband and wife will also be able to benefit from two annual exemptions. At present they must share a single exemption. As, after 1990, assets will continue to pass between married couples tax free, notwithstanding their separate taxation, it should be possible to make full use after 1990 of both exemptions, whatever the way in which assets are held between them.

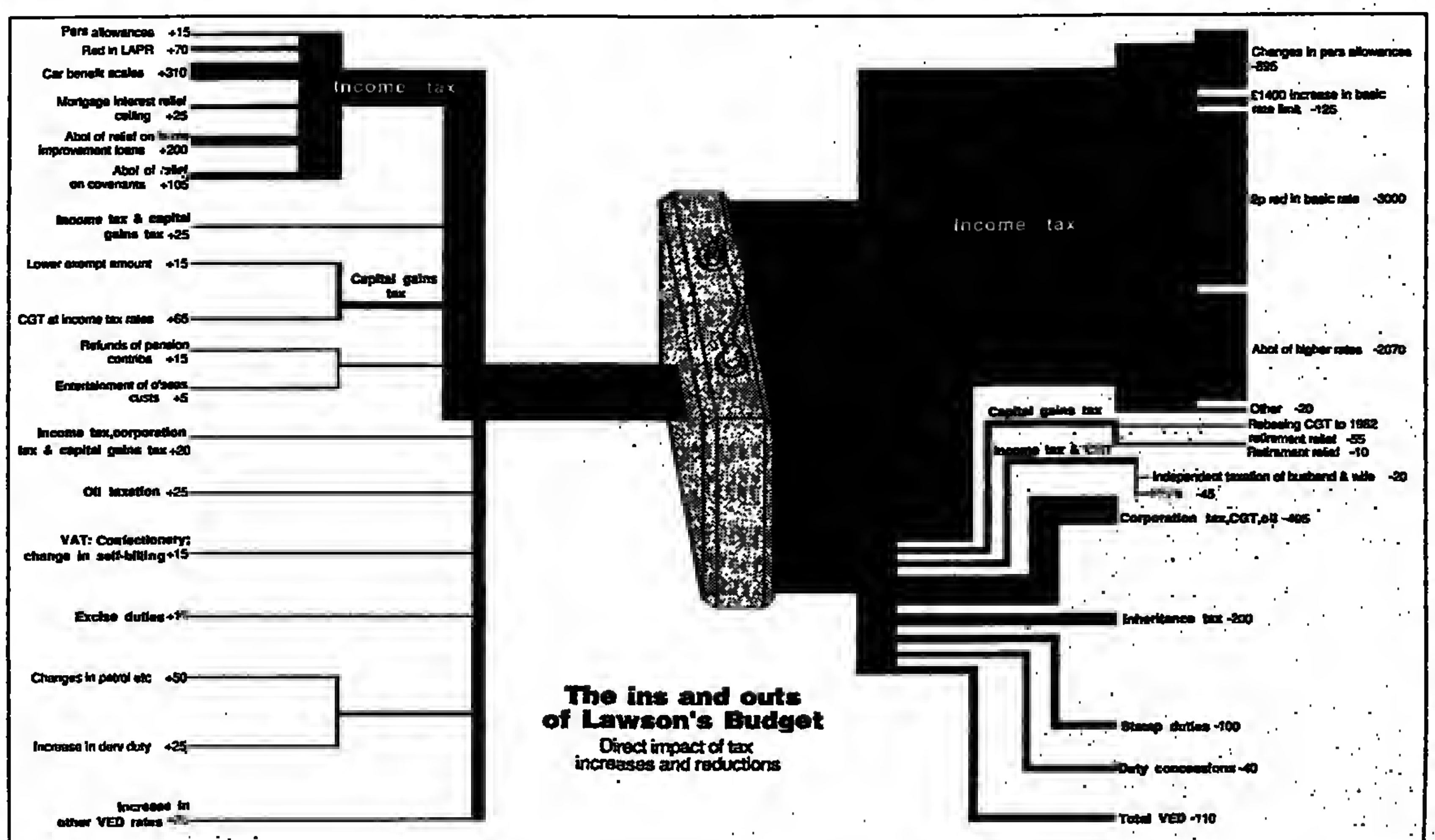
The distinction between income and capital which has been at the bottom of many problems with the UK tax system may not have disappeared. It is, however, significantly reduced for the future. One of the criticisms of the CGT system is its complexity. A high annual exemption, as the Chancellor noted, may have been a rough *and ready adjustment for* pre-1982 inflationary gains. It also had the merit of taking many potential taxpayers out of charge, particularly those who might find the complexity unduly burdensome.

The changes proposed do little to reduce this complexity. Assets acquired before April 1982 have had to be valued at that date under the indexation provisions. In calculating taxable gains for the future, a person will be treated as acquiring an asset at its market valoe on 31 March 1982. However, special provisions will ensure thet this new method of calculation does not result in an increase in the gain (or loss) as compared with the present system. Similarly if there is a gain since March 1982, but a loss under the present system, no gain or loss will be regarded as arising.

The new regime will not, it seems, enable taxpayers to forget *completely what went before.* The need to increase the £5000 exemption to spare taxpayers the system's complexities is likely to remain in future years. The reform of CGT, and in particular the complete elimination of tax on inflationary gains, which has long been the Chancellor's wish, may now be regarded as done. The position of a capital gains tax, if only to protect the income tax base, is assured. Those who had hoped to eee the capital gains tax feature among the taxes abolished by Mr Lawson are to be disappointed.

Apart from these more radical changes, one further change bears mention. The exemption of gains on business assets or on shares in family companies is increased. A taxpayer who sells such assets after the age of 60, or on earlier retirement due to ill health, has been entitled to a £125,000 exemption. This is now increased after 5 April 1988 to *£125,000 plus 50 per cent of* the gain between £125,000 and £500,000.

Malcolm Gammie



The ins and outs of Lawson's Budget
Direct impact of tax increases and reductions

HOME LOANS

Surge in housing demand expected

A RUSH by first time buyers in London and the South East to buy homes before next August was being predicted yesterday by building societies in the wake of the the Chancellor's decision to restrict mortgage interest relief to one person per property after that date.

"We would expect demand to be brought forwards and then to slacken off again after August," said e spokesman for the Halifax Building Society. He thought that in the longer term first-time buyers might be reluctant to move rather than lose their existing double relief on mortgage interest that they would not be able obtain on e new purchase.

After August, the £30,000 limit on mortgage interest relief will be set at one per home, regardless of the number of borrowers involved in the purchase.

"Clearly this is going to make it more difficult for single people in the London area to buy their own bomes," said the Building Societies Association.

Mr John Bayliss, the General Manager of the Abbey National, Britain's second largest building society, said the change would make a difference of £62 e month to two basic rate taxpayers buying a house of £60,000.

Building societies generally seemed to feel that the budget would make for tougher conditions et the lower end of the housing market.

"Although the Budget tax cuts will offset tbe extra cost of a mortgage," said Mr Robert Linden, the General Manager of the Bristol and West Building Society, "It will still mean that two or more people sharing the cost of bnying a property will find it more difficult in future."

There was also a widespread feeling that the ending of tax relief on bome improvement loans might deter people from improving their homes, though one or two building societies were prepared to concede privately that loans of this sort had beeo widely abused.

The share price of building material producers and builders merchants fell sharply last night in reaction to the Chancellor's announcement that mortgage tax relief would no longer be availble for loans raised to pay for home improvements.

Savory Milln stockbrokers estimate that around £3bn annually is raised from societies and banks ostensibly to pay for home improvement.

Andrew Taylor

Entertainment

Casting the net further

THE CHANCELLOR'S decision to bring the entertainment of overseas visitors by companies within the tax net after more than 20 years of being a tax-deductible perk is likely to hit hardest those companies which are marketing oriented, leading exporters and service industries such as advertising agencies.

However, this brings Britain into line with many of her European Community neigbbours and clarifies a tax area that had become grey.

Industry observers in the business gift market anticipate a clampdown on gifts since these too will be taxed from August.

There will be concern among catering, hotel and restaurant trades at what they see as a potential fall-off in business.

Feona McEwan

THE ECONOMY AND INDUSTRY

The Chancellor keeps them all guessing

MR NIGEL LAWSON, tbe Chancellor yesterday decided to operate the first law of monetary policy: keep the markets and industrialists guessing. He left tbe Government's exchange rate policy undefined while reiterating its commitment to the control of inflation.

In so doing he does not appear to have held out any early resolution *of* exchange rate policy – although the Bank of England's intervention at levels just above DM3.09 may indicate a new level for the pound – and left e question over any early post-Budget cut in borrowing costs.

At the same time be laid the foundations for future tax cuts and fiscal prudence. He foreshadowed a public sector borrowing requirement surplus of £3bn for this financial year and pencilled in a similar target for the coming year. After that his medium term financial strategy foresees balanced bndgets up to 1991/92.

Mr Lawson also forecast future tax cuts. In 1989/90 he has pencilled in £3bn and cuts of £1.5bn in the next two years.

His concentration on keeping a tight rein on industrial costs, along with his failure to offer any concrete indications of a reduction in exchange or interest rates, was greeted with disappointment among large-scale manufacturers. "It does little to promote manufacturing industry or exports," said ICI.

After last week's apparent conflict between himself and Mrs Thatcher, the Prime Minister, over the decision to let the pound appreciate above DM3.00, there was a general expectation that the Chancellor would seek to reassert his control over this element of the Government's economic policy and give it a new focus.

In his Budget speech, however, references monetary policy in general, and exchange rate policy in particular, were notably brief. His, and the Treasury's, comments on monetary and exchange rate policy approached the anodyne.

Short term interest rates would be set to ensure downward pressure on inflation. The exchange rate played a central role in domestic monetary conditions.

There was a brief mention in the Chancellor's speech of industry's appreciation of stable exchange rates, but with a sting. Industry should accept the financial discipline inherent in a policy of stable exchange rates. In the medium term financial strategy, published alongside the Budget, the Government reiterated its past policy of not allowing increases in domestic costs to be "accommodated" hy the exchange rate.

The Government has also returned to its policy of fully funding the public sector borrowing requirement, which it relaxed in the wake of tbe October share prices collapse.

However, in the coming year Mr Lawson appears to have made the control of inflation at around 4 per cent his main target. He has reduced the target rate of growth of M0, the narrow definition of money supply and the Treasury'e main indicator of domestic monetary conditions, from the 2-6 per cent target last year to 1-5 per cent this year. This is consistent with e forecast lower rate on nominal gross domestic product growth.

From industry's point of view there were a number of more specific niggles with the Chancellor'e proposals. High technology sectors such as electronics and aerospace were critical of the failure to offer incentives for research and development.

Some industrialists were upset that there was no specific device to enconrage investment. The increase in petrol and diesel prices was attacked on the grounds that it would put up costs and might damage the prospects of the British motor manufacturers.

Theee uoenthnsiastic responses were balanced by the feeling that the Budget was likely to keep the economy on e course whicb has yielded handsome profits to industry over the last year. Business was pleased with the confirmation of e high growth level for this year and the Chancellor'e assertion that inflation would be kept down to 4 per cent. Many industrialists said their main concern remained inflation: they had learned how to manage their costs, they said, as long as inflation did not swing out of control.

The stress on individual tax in yesterday's Budget undoubtedly took the eye of many industrialists. The Association of Chambers of Commerce said that the changes were "dramatic and far reaching." The Association stressed that the Budget marked e switch to encouraging individual enterprise helping those who owned businesses and managed plants. "We wanted incentives. We have got them. Now let'e make them work," it said.

Simon Holberton

Business scheme cash limit cut

THE Bneinese Expansion Scheme will be altered radically by yesterday's decision to limit the amount of money which can be raised by a company each year and the inclusion of residential property letting in the scheme.

"The limit is much too low," said Mr Steven Rowe of BES Investment Research. "It will take a lot of money into the residential property market which would otherwise have gone into genuine businesses," he said.

BES has raised a total of £722m since 1983 for British companies. But most of that has been through prospectus issues, usually these are introdnced by a sponsor who takes a juicy 5 per cent of the proceeds in return.

In 1986/7, 154 companiee raised £143.2m through prospectus and fund issues, while only £12m was raised by as many as 400 companies through private placings. Last year, the average amount raised in each issue was £2m.

These issues will stop, apart from residential property letting and shipping companies, which can raise up to £5m a year.

However, yesterday's decision will help smaller companies which were finding it harder to raise money – in contrast with the ease with which, for instance, one garden centre felt it could raise up to £20m in one year and then clobber investors for a further £10m six months later.

Heather Farmbrough

Felling forestry tax relief

THE CHANCELLOR's decision to take commercial forestry out of the tax system and thus end the incentives which resulted in the controversial planting of conifers on environmentally-sensitive land, was warmly welcomed yesterday by Britain's conservationists groups and MPs of all parties. However, the move was greeted with caution by the forestry industry.

The government's forestry tax incentives, which were of especial interest to the very rich, have been roundly criticised over the past year by the government's independent auditor, the National Audit Office, by the all-party parliamentary Public Accounts Committee and by every major conservation group, including the Countryside Commission, and the Nature Conservancy Council, both government quangos, as well as the independent Council for the Protection of Rural England.

The NAO and the PAC both questioned the economic viability of forestry policy, including its low rates of return and high cost of job creation, while the conservation groups have concentrated on the environmental impact of much conifer planting which has been encouraged by the tax incentives.

The particular advantage to high-rate taxpayers of the incentives now abolished (which were worth £10m in 1986 with a further £16m handed out in grants and services) was that the costs of establishing new plantations could be set against income tax liability from other sources, while capital gains tax was avoided when the plantation was sold.

The system encouraged planting in marginal areas like the so-called Flow Country in northern Scotland where land – the only item not allowable against tax – could be had particularly cheaply.

Yesterday a spokesman for the CPRE, which has campaigned assiduously for the change, said be expected planting in such areas to be "stopped dead".

However, Mr Bill Dodd, Chief Executive of Fountain Forestry responsible for much Flow Country planting, said his company would "wait and see". There was no doubt that the Chancellor had removed e very powerful incentive to forestry that was very worthwhile, he said.

Detailed comment on longer term effects of yesterday's move was being withheld yesterday until more becomes known about the new grants for forestry, promised by the Chancellor for next week.

Mr Ronald Williams, secretary of the UK Timber Grower's Association, said, depending on the new grants, the Chancellor's move could jeopardise the government's planting target of 33,000 ha a year, representing ultimately a shortfall of supplies for the expending domestic timber industry.

PETROL DUTY

Making unleaded fuel attractive

THE EXEMPTION of unleaded petrol from the 5p to 6p a gallon duty increase on other types of petrol accords with the gradualist approach which the motor industry and oil companies had wanted.

In the 1987 Budget a small tax differential in favour of unleaded offset the extra cost of production so that its price at the pumps was about the same as for premium gradc fuel. The latest change will enable unleaded petrol to be priced a little below the cheapest leaded grade.

In spite of the oil companies' agreement to increase availability of unleaded petrol – it is now available at 715 petrol stations – sales have been extremely sluggish, representing only about 0.7 per cent of the market.

This is largely because of the uncertainty and confusion about which cars can use unleaded petrol without damage. Only about 10 per cent of cars can use the fuel without adjustment, although about half could use the new fuel after relatively inexpensive changes to their engines. After 1990, all new cars will be required by law to run on unleaded petrol. The move is intended to cut lead pollution in the atmosphere.

The oil industry is anxious to make a return on the £500m which it has invested in refinery additions and marketing ontlets for unleaded, but it does not wish the incentive to be so large that motorists are tempted to put it intounsuitable cars.

The Chancellor's move was therefore welcomed yesterday by the major petrol companies. Shell said that a similar differential in West Germany resulted in unleaded grades taking about 20 per cent of the market.

The Budget duty increases on petrol and derv, which amounted to twice the increase required to keep pace with inflation, brings the duty on a gallon of petrol to about 83p. The duty on a gallon of derv will be 78.6p. These increases were condemned by the Royal Automobile Club.

Max Wilkinson

NORTH SEA OIL TAX

Pumping more gas from southern fields

THE ABOLITION of royalties on post-1982 oil and gas fields for the Southern Basin and onshore areas promises to encourage the development of more marginal fields.

The Government, however, has balanced this by reducing the oil allowance for the Petroleum Revenue Tax from 250,000 tonnes to 100,000 tonnes for e chargeable period. The allowances permits write offe of exploration costs against the PET liability, which is based profits from oil and gas production.

The Department of Energy says the tax was designed to be fiscally neutral. Royalties on the central and northern sectors of the North Sea were abolished in 1982.

Mr Peter Morrison, energy minister, said: "The Southern Basin fiscal regime was becoming insensitive to the economic realities of more recent fields and could be an obstacle to the development of worthwhile projects. The changes will make the regime more responsive to the economics of individual fields."

The net effect will be to delay any tax charge on more marginal fields, and thus encourage early development. For highly profitable fields, however, profit-related taxes, including the PRT and Corporate Taxes, will become payable earlier, and more tax would be collected.

Broadly, the tax changes were aimed at encouraging prodnction of more gas in the Southern Basin in order to encourage gas self-sufficiency in Britain throughout the next decade.

Possible beneficiaries of the measures include the Ravenspurn North field, operated by Hamilton, and Solepit, e Shell-operated field.

Analysts were divided about the possible winners and losers of the revised tax scheme. It was suggested that British Gas could be the net beneficiary of increased gas prodnction because British Gas would have more leverage in price negotiations in the face of greater supplies.

Other, however, said that the increase in supplies was not likely to be so great as to alter radically the supply and demand picture and that British Gas would be impolitic to press for undue advantage.

Steven Butler

IN SHORT

Investment incentive lost from pension funds

THE Chancellor referred to minor changes in the tax rules applicable to pensions. However, details published by the Inland Revenue show that he is making one change that will have a very significant effect on the overall return to an employee – namely the tax charge levied on a refund of contributions when an employee changes jobs, Eric Short writes.

An employee making contributions to an occupational pension scheme receives tax relief at his or her top rate. If an employee leaves that employment and is entitled to a refund of contributions paid, then a flat 10 per cent tax rate is currently deducted. Since even basic tax rates have been around three times this rate, the net amount received by the employee represents an investment return in excess of 10 per cent a year.

Now the flat rate tax charge is being increased to 20 per cent, bringing it more into line with the basic tax rate.

Current pensions legislation allows employees changing jobs to qualify for a contribution refund with less than five years membership of a pension scheme. However, the trust deed and rules of pension schemes can impose a lesser period and many schemes only allow refunds with less than two years membership. From next month the legal qualifying period is being reduced to two years.

Nevertheless, in the past many employees, particularly married women, have changed jobs primarily to get a contribution refund on attractive terms. Now the investment incentive has been removed.

'Positive step' on capital duty

■ THE ABOLITION of capital duty from today will reduce the cost of raising new capital in the UK financial markets and should enhance London's appeal as an international financial centre. The move was welcomed by the Stock Exchange last night as a positive step, writes David Lascelles.

The duty was equivalent to 1 per cent of the capital raised, meaning that a sum of £10m carried duty of £100,000. It was applied when companies issued new shares on formation, or made rights issues and also in some cases when they took over other companies through an exchange of new shares.

It was introduced in 1973 when the UK joined the European Community to comply with an existing directive. But in 1985, the directive was changed to allow for the reduction or abolition of the duty. The UK is the first EC member to abolish it.

The Chancellor decided on the step for two reasons. It will help companies when they are being formed or want to expand and thus fits the policy of encouraging enterprise. It will also remove a bias against equity finance, as opposed to debt or borrowing, and should therefore encourage the growth of stronger balance sheets.

The abolition will increase London's cost advantage as a capital raising centre vis-à-vis other European cities, though these are likely to follow suit because of the competition that now exists between capital markets.

Mixed tidings for health lobby

● THE CHANCELLOR has learned that "fiscal punishment" costs jobs, the tobacco industry claimed yesterday write Christopher Parkes and Lisa Wood.

Rothmans, which has closed two cigarette factories in the past four years, said Mr Lawson's neutral tax increase was good news for workers at its two remaining UK factories.

Last year's freeze on cigarette taxation appears to have halted the flow of cheap imports, said Mr Clive Turner of the Tobacco Advisory Council. This year's increase in line with inflation would help UK manufacturers resist erosion of their market share. Heavy price increases mainly persuaded smokers to switch to cut-price imports, he said.

The British Medical Association, the leading anti-smoking lobby group, was dismayed. The Chancellor had failed to give smokers the "economic push" they wanted to give up, it said. He had also failed to make cigarettes too expensive for children, who spend 270m a year on smoking.

There was some consolation for the health lobby in the government's first attempt by fiscal means to encourage people to buy drinks of a lower alcoholic strength.

The proposals include lower rates of duty for "coolers," mixes of fruit juice, wine and water. The duty base for beers will also be lowered. The duty base is 1030 Original Gravity. From October there will be a duty reduction for every degree below 1030 OG.

Small business uncheered

■ THE SMALL BUSINESS sector has become used in recent years to budgets which improve the general business climate but generally avoid sweeping new measures aimed at the smaller man. This year was no exception, writes Charles Batchelor.

"To benefit from this budget the small businessman would have to retire or die," was the gloomy reaction of one small business lobby group.

With the exception of an important reduction in inheritance tax and an increase in capital gains tax retirement relief, little was done specifically for the small businessman, according to Mr Brian Prime, chairman of the National Federation of Self Employed and Small Businesses.

He criticised what he saw as the failure of the Chancellor to do anything to encourage the small businessman to keep his money in his company.

But a more favourable reaction to the Chancellor's announcement of general reductions in personal taxes – the 25 per cent basic rate becomes the corporation tax rate paid by small businesses – came from other lobby groups. "This is a good entrepreneur's budget," said Mr Stan Mendham, chief executive of the Forum of Private Business.

The modifications to the Business Expansion Scheme – restricting fund-raising by a company to just £500,000 in any one year – appear ill-thought out, according to some experts.

Investors, who up to now have been attracted to the larger "prospectus issues", often of several million pounds, are unlikely to want to invest in much smaller companies.

Lloyd's meets the 20th century

■ MEASURES in the Budget affecting Lloyd's of London appear to mark another stage in the Inland Revenue's plan to bring the Lloyd's tax regime in line with the rest of the City writes Nick Bunker.

First, the Lloyd's managing agents, which run the market's insurance syndicates, will have a legal duty to declare syndicate underwriting profits and investment income.

Second, the Revenue will assess all sources of a Name's Lloyd's-related earnings for income tax as trading profits under Case I of Schedule D. Until now, only profits were assessed under Case I – and income from syndicate funds was taxed separately.

Historically, this could be beneficial if the investment portfolio was managed mainly for capital appreciation, which in the past, for most Names, was taxed at a much lower rate than income. But this advantage of Lloyd's membership was greatly reduced by the 1985 Finance Act, so yesterday's change is unlikely radically to alter any Names' tax bills.

Way clear for building societies

■ BUILDING societies planning to shed their mutual status and convert into limited companies have had one of the major practical obstacles removed by the Chancellor, writes David Barchard.

Until yesterday, any building society wanting to convert into a company would have had to pay capital gains tax on its net assets, as well as capital duty and stamp duty.

Stamp duty remains but the Capital Gains Tax (CGT) and capital duty obstacles have gone. The CGT restriction appears to have been an anomaly overlooked in the drafting of the 1986 Building Societies Act. For several months building societies had been lobbying to have it scrapped.

One consideration for those building societies wanting to convert is whether they could be sure of getting a banking license from the Bank of England – since they would have to incorporate as a bank.

At least six building societies are believed to be considering incorporation, including both of Britain's two largest building societies, the Halifax and the Abbey National.

INHERITANCE TAX

Millionaires and the enterprise ethic

ONCE AGAIN the Chancellor has made major changes to the system of taxing transfers of property at death and by gifts. Since the Conservatives came to power with the declared intention of "drawing the teeth" of Capital Transfer Tax, just about every Budget has seen some easing of the burden of death and gift taxes: raised thresholds; lower rates; reduced aggregation periods; gifts between individuals totally relieved of tax if they survive seven years; finally, this change to a single rate of tax of 40 per cent.

In this budget, the Chancellor has raised the threshold by £20,000 and abolished the 30 per cent rate of tax together with the top two rates of 50 and 60 per cent. The full year cost in 1989-90 is estimated at £200 million.

The outstanding feature of the Chancellor's proposals is the benefit it gives the really wealthy. A millionaire, claiming no special reliefs or exemptions, gains – or rather his or her heirs' gain – £145,000 at a stroke. The £2m estate benefits to the extent of £345,000. No one is worse off but the more modest estates of, say, under £200,000, gain very little.

The Chancellor claimed that his changes would ensure that the family home could be retained; yet the free-of-tax transfers between husband and wife had already ensured that a widow or widower did not have to leave home for tax reasons.

The Chancellor may play with the fact that the combined effect of his rate reductions and the 50 per cent relief for family businesses means that the tax rate on the family business could not exceed 20 per cent. Thus, the Chancellor justifies his measures by reference to the "enterprise ethic". Yet, is that justification valid? How far does a desire to pass on the family business really represent a significant motivation for an entrepreneur? Research evidence is lacking, but it is clear that many entrepreneurs do not have a son or eligible daughter to whom they can pass the business; where they have, their offspring may not be interested. Moreover, there is nothing in the laws of eugenics or economics to ensure that the child of the successful entrepreneur will have the same entrepreneurial talents as the parent.

The country which currently tops the OECD league table for revenue from wealth transfer taxes is Japan.

There is another aspect of the enterprise ethic. If a Socialist creed is "from each according to his ability, to each according to his need," that of the capitalist is "from each according to his ability, to each according to his contribution." It may be justifiable that an entrepreneur who creates a new product which delights millions of people should enjoy millions of pounds as reward. But why should his heirs receive huge wealth from his not their efforts.

The Government is about to change the social security provisions in what many see as an attempt to reduce dependency and promote the enterprise ethic. Thus, social security claimants are being denied single payments to meet major one-off needs and instead are having to resort to loans from the social fund. The enterprise ethic is fine, as long as it doesn't hit wealthy Tory supporters.

Cedric Sandford

INCOME TAX

A gain for high earners, with little to offset it

IN HIS previous budgets the Chancellor has aimed his changes to income tax at improving the position of taxpayers on average or below average earnings. While the higher paid have also benefited from these changes over the past two budget years, this has been offset by an increase in their liability to tax at higher rates; this has resulted from the failure to index thresholds for the higher rate bands in line with inflation, or indeed at all in 1987.

The Chancellor has now turned his attention to the higher rates, with dramatic effect. The elimination of the higher rate bands at 45 per cent, 50 per cent and 55 per cent leaves a simplified income tax structure in which income is taxed either at 25 per cent basic rate (on the first £19,300 of taxable income) or at the single higher rate of 40 per cent.

The extent of these reductions can be gauged from the situation of a taxpayer earning £45,000, just at the upper limit of the 55 per cent band for a married man, ignoring any relief other than personal allowances. He will see his tax bill drop by £2,914 in 1988.

While a reduction was widely expected, there was speculation that changes in national insurance contributions might balance the equation. In the event, the Chancellor made no reference to changes in national insurance, leaving the increases announced to the Autumn Statement to take effect from April 6: the lower earnings limit for Class 1 National Insurance will therefore be £2,132, and the upper limit £15,860.

The tax saving is therefore offset by an increase in employees' national insurance contributions of just £47, the additional amount due at nine per cent following the increase to the upper earnings limit to £15,860 from April 6 1988.

Higher earners will see even more dramatic reductions, as illustrated in the accompanying table. At the highest level of earnings shown, a married person earning £75,000 will see an increase of £10,137 in his disposable income in 1988/1989. While this is due in part to the fact that average earnings have risen faster than inflation, tax changes alone would give him almost £9,000 additional spendable income. Such a taxpayer is today nearly 40 per cent better off in terms of disposable income than he was after Sir Geoffrey Howe cut the top rate of tax from 83 per cent to 60 per cent in 1979.

These changes inevitably cast into shadow the improvements at lower levels of earnings, although here too there have been real improvements since 1979 in net spendable income. Over this period disposable income has increased by some 20 per cent

For many higher rate taxpayers, the price to be paid for the reduction in overall tax rates is the elimination of various tax shelters. There have been no changes in the most common tax reliefs, however, such as pension contributions and mortgage interest relief on house purchase. Subscriptions for shares under the Business Expansion Scheme also continue to qualify for relief

The reduction in the basic rate of tax has a number of knock-on effects in the tax system. New deeds of covenant taken out will no longer be effective as a means of obtaining tax relief at basic rate on the income from a taxpayer to a non tax-paying individual, most usually from grandparent to grandchild or by parents to adult student children. For existing covenants which are expressed in terms of gross payment – rather than a sum after deduction of tax at basic rate – sums paid after April 6 must be adjusted to take account of the reduction in basic rate.

Mortgage interest payments under the MIRAS scheme will rise to reflect the fact that tax relief is being given only at 25 per cent. Similarly, those householders who have obtained relief on interest at 60 per cent will see the real post-tax cost of their interest payments rise by 20 per cent.

Frances Corrie

BUDGET '88

Disposable income
After income tax and NICs

* Adjusted for inflation	Family of 4, 2 earners		Family of 4, 1 earner	
Gross earnings	Post buget 1987*	1988	Post buget 1987*	1988
£12,500	£10,229	£10,851	£9,329	£12,060
£20,000	£14,648	£15,001	£14,258	£15,383
£30,000	£20,657	£22,427	£20,214	£21,292
£50,000	£31,023	£34,547	£29,270	£33,802
£75,000	£40,859	£48,548	£36,755	£46,002

Table illustrates increase in spending power (including child benefit) of a family of four at selected levels of income. Gross earnings shown are those for 1988-89. Earnings assumed to have increased in line with average earnings. Disposable income calculated by deducting income tax and national insurance. No allowance made for relief on mortgage interest or pension contributions. Source: Frances Corrie, KPMG Peat Marwick McLintock

STUDENT LOANS

Barriers set up for parents, but taken down for students

THE COST to parents of financially supporting their children through university or other higher education will go up substantially as a result of the Chancellor's taking non-charitable deeds of covenant out of the tax system.

However, the financial barrier to students taking work during their vacations will be removed.

Parental income is taken into account in assessing the amount of grant made by local authorities to students, with heavy reductions for those in high income groups.

Students with reduced grants then needed financial help from their parents and the deed of covenant was a tax-efficient method of providing that help.

Under the previous system, a parent covenanting a sum paid the amount net of basic rate tax. But the student, if he or she had no income, could reclaim the tax deducted up to the single person's allowance, thereby receiving the gross amount covenanted.

However, this system also meant that the tax reclaimed on convenants counted towards the student's overall annual income – providing a discouragement to the taking of vacation jobs, because the tax limit would have been reached much more quickly.

Under the new proposals parents will have to pay the gross amount covenanted. But this amount will not count towards the student's annual earnings for tax purposes.

A similar effect will apply to grandparents or other family members assisting in the payment of private education school fees by means of covenants.

Providing it was not the parent covenanting, the covenant income was regarded as belonging to the child and not aggregated with the parents' income for tax purposes.

Surveys show that at least one child in five currently educated in the private sector, receives financial help in meeting school fees bill from grandparents or other members of the family.

Previously, grandparents made payments net of basic rate tax, with the parent as guardian of the child reclaiming the tax deducted. But the amount of tax reclaimed was limited by the single person's allowance.

Now grandparents will have to pay the gross amount covenanted. But children will be able to receive any amount of financial help.

With top school fee levels for boy boarders now approaching £2,500 a term (£7,500 a year) this feature is significant if the child has any other sizable amount of income.

Eric Short

CHANGES BENEFIT MARRIED WOMEN

Privacy and a single allowance for wives

CHANGES to the taxation of husbands and wives have been delayed for at least two years because of the need to reprogramme the Inland Revenue's computers. However, when introduced, they will end a number of anomalies and injustices that have existed in some cases for nearly two centuries.

Firstly, married women will become taxpayers in their own right on April 6 1990. Since 1805, husbands have been legally responsible for a married couple's tax affairs and for paying any tax due on their joint income.

The second important reform will be to give all individuals a full single tax allowance (£2,605 in 1988/9). At present, a married woman receives only an allowance against earned income: her investment income is added to her husband's and taxed at his top marginal rate of tax. In future, therefore, it will be worth while for a wife who does not earn her full allowance to transfer income-earning assets to her name to use the full allowance.

The new system does not usher in totally separate taxation: husbands will receive an extra married couple's allowance, equivalent to just over half a single person's allowance. This will take a couple's joint allowances to more than two and half times a single person's allowance – exactly the same as at present.

The Inland Revenue says that taxing a woman separately, rather than adding her income to her husband's and taxing this at his highest marginal rate, will leave about 1.6m women having less tax charged on their income. The average reduction will be £300.

The Revenue also says that 500,000 husbands will pay less tax. Most of these are in couples which in the past have made a wife's earnings election, leaving them with only two single allowances. In the future, the man will also receive the married couple's allowance. This will benefit the better off: it has only been worth while to take the wife's earnings election in cases where joint income is in excess of £27,000.

In spite of this, the Revenue says 70 per cent of the 2m people who will be better off under the new system have incomes of less than £10,000 a year.

Allowing a married couple two capital gains tax allowances (worth £5,000 each under 1988/9 rates), rather than the single £6,600 at present will also leave some couples better off. The switching of assets between husbands and wives will not attract tax, so it will make sense for them to take use of the full £10,000 allowance. Gains in excess of this will be taxed as income.

Couples in which the wife works but the husband does not will be worse off under the new system. A man will be able to transfer any unused portion of the married couple's allowance to his wife, but not his personal allowance. At present he can transfer his full married man's allowance. This will leave a couple with 1.5 times the single allowance (£4,096 under 1988/9 rates)

● Much of the tax relief on maintenance payments has been removed. In the past, tax relief was given on payments made under court orders or legally-binding separation agreements. On orders from today, only the first £1,490 of a payment will be tax-deductible, while the recipient will no longer pay tax on the payment.

Richard Waters

EMPLOYEE SHARE SCHEMES

Reducing the tax threat

THE Chancellor reaffirmed that there is to be a significant relaxation of the income tax provisions applying to gains made under non-approved employee share schemes. But the impact of allowing many more employees to pay capital gains' tax rather than income tax on their share profits is likely to be reduced by the fact that all capital gains are now to be taxed at an individual's marginal income tax rate.

The new measures were foreshadowed by a consultative process – triggered in last year's Budget speech – and the publication of detailed Inland Revenue proposals last October (which in fact announced that the new rules would be effective from October 26, 1987).

The old rules charged income tax on most employee share acquisitions which were outside the scope of revenue approved schemes. Although there were a number of exemptions these could never apply if the shares were subject to restrictions or were shares in a subsidiary company.

Assuming the new proposals are enacted in substantially the same form as the draft clauses issued last October, the income tax threat will be considerably reduced. The tax charge will now be focused on two very specific types of share acquisition.

The first taxable situation will be where the employee's shares are boosted in value by alterations to the rights attaching to those shares or to other shares in the company. Tax is to be payable on the amount by which the value of the shares is increased.

The second area to which the income tax net will still extend is the acquisition of shares in "dependent" subsidiaries. These are subsidiary companies whose overall value is likely to be significantly affected by its dealings with other companies in the same group. The tax charge will be on the full amount of the employee's gain on disposal or, if he holds the shares for more than seven years, on the seventh anniversary of acquisition.

This major piece of new legislation combined with the blurring of the distinction between income tax and capital gains tax is likely to lead to a radical rethink

David Cohen

COMPANY CARS

Manufacturers attack 'savage' doubling of tax

THE DOUBLING of taxation of benefits on company cars is unlikely to dampen the booming new car market where sales are at record levels. But the Society of Motor Manufacturers and Traders (SMMT) yesterday called the move "savage and unfair".

The motor industry maintains that almost three-quarters of the mileage covered by company car drivers is on business, proving that company cars are primarily business tools.

Further increases in the scale charges could not be justified, the SMMT said. The Chancellor had previously announced a 10 per cent increase in the car benefit scales for 1988/89. Yesterday's announcement of a doubling was "a bombshell", said the SMMT.

The motor industry was particularly concerned that the attack made by the Chancellor on company car benefits in 1988/89 was only the start of a process which would see "just as swingeing attacks to coming Budgets".

This could have a long-term impact on the structure of the market, encouraging company car owners to trade down to smaller models in segments of the market where importers were relatively stronger than domestic manufacturers.

Mr Neil Marshall, economic adviser to the Motor Agents' Association, which represents around 18,500 new and used car retailers, said, however, that the doubling of taxation would be unlikely to affect sales.

Overall the motorist had escaped fairly lightly in the Budget, he said. The sector had overcome the scare in the wake of the October stock markets crash, and tax cuts and increases in personal disposable income should help remove fears that that there would be any dip in new car sales in the second half of the year.

New registrations reached a record level last year at 2.013m cars, and in the first two months of this year sales have risen by a further ten per cent compared with the same period a year ago.

Even with the doubling of the tax scales a company car was still a "worthwhile benefit to a motorist" compared with providing a car privately out of taxed income, said Mr Guy Madewell, tax partner at Price Waterhouse, the accountants, although he accepted that the intention of the Government was to keep racking up the taxation level to further erode the company car perk.

The Government maintained that "in all but a very small minority of cases the additional tax payable under the proposed new car benefit scales will be less than the tax reductions from the increases in personal allowances and the reduction in the income tax rates."

The revenue from the taxation of car benefit is likely to rise by about £260m in 1988/89 from the 1987/88 yield of £310m. The increase will take effect from April 6 this year.

Drivers of luxury cars will be hardest hit. Those driving cars valued originally at £19,250-£29,000 will face increases of £11.15 a week.

Kevin Done

FINANCIAL TIMES

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THE BUDGET: Analysis

A one-sided budget

WITH THEIR long and distinguished dramatic tradition, the British love a good piece of theatre. Of nothing is this more true than politics, with the Chancellor's budget speech one of the better matinée performances of the year. It demands careful writing and acting, with meticulous attention to timing, a few good surprises and a rousing climax. Now on his fifth budget, the Chancellor has already shown himself adept in all respects, yesterday being no exception, while the audience in the House of Commons added its own excitement to the performance.

The Chancellor is a matinée idol to his supporters and a villain to his opponents. He lived up to the expectations of both sides, giving the faithful all they could reasonably have hoped for, while meeting virtually none of the Opposition's demands. His is a fine example of a partisan budget, as one might expect in the first of the new Parliament.

But there is more than just good (or bad) politics involved. As the first budget of the new term, presented when the coffers are full, this one was important for the Chancellor, for the Government and for the country.

Managed floating

The Chancellor has reconfirmed his macro-economic strategy, perhaps as strongly as he could on this occasion. In particular, he stressed that "we shall continue to play our part" in achieving the objective of greater exchange rate stability in the context of international economic co-operation. "Exchange rates," he remarked "play a central role in domestic monetary decisions as well as in international monetary co-operation." Yet last week's accommodation to foreseeable pressures has mada the policy one of managed floating, with his difference from the Prime Minister appearing to be largely over how much emphasis is placed on the first or the second of these terms.

Managed floating is about the Government's acting as a stabilising speculator in the short term. The question is whether the Chancellor offered any anchor for medium-term inflationary expectations other than the Government's record. One such effort is the Medium-Term Financial Strategy itself. Unfortunately, M0 is not the most compelling of monetary aggregates, while the targets for money gross domestic product and the public sector borrowing requirement have been adjusted too frequently to be credible. These alternatives do not provide the Chancellor with what is now missing. From his perspective, the failure to join the European Monetary System must be grievous, leaving his pronouncements on macro-economic policy and the exchange rate obscure.

With this background, the fiscal policy judgment for next year has become particularly significant. A balanced budget has been set as a new target for the PSBR. Given the fate of past medium-term PSBR targets, this number should perhaps not be taken too seriously. What is important is the target for 1988-89 of minus £3bn, equal to the outcome for 1987-88. This apparently stringent target still allows the Chancellor to adjust taxes by £4bn compared with what they would otherwise have been. As he correctly notes, this is not the same as "tax cuts", since it merely leaves the share of GDP taken in taxes unchanged. The combination of a budget surplus with these tax adjustments indicates the extraordinary buoyancy of revenue. Government revenue for 1988-89 would have been £11bn above last year's projection with unchanged taxes.

It would be rash to suggest that £4bn here or there would make a decisive difference when personal savings ratios can halve in a matter of five years. What is worrying is that the UK has been showing the same sort of private savings performance as the US. With investment expected to expand rapidly, there is a danger that there will be a substantially greater current account deficit than now forecast, the route to this being a disruptive exchange rate appreciation. It is arguable that the UK can and should be prepared to run a substantial current account deficit, perhaps more than the £4bn projected by Mr Lawson, but it is not a comfortable position.

The Chancellor could not have gone any further with tax adjustment, unless he had wished to essay a policy of controlled irresponsibility as a means of frightening foreign lenders away. As it is, he may have the worst of both worlds: with sufficient prudence to encourage inward investment, but with such high real rates of interest – partly because of the low rate of national savings – as to attract excessive short-term inflows.

Immediate cut

Finally, what of the tax reforms? He has been bold in the reduction of higher tax rates to 40 per cent and in the immediate reduction of the basic rate to 25 per cent, along with the new target of 20 per cent, all at a forecast cost of £5bn. Given other changes of great benefit to the very well-off, especially in inheritance taxes, one might have expected more than the double-indexing in the thresholds as a sop to equity. Among the more important issues shirked were national insurance, which becomes a still more obviously regressive tax, and the possibility of limiting the tax deductibility of allowances (above all, mortgage interest allowance) to the basic rate. The increased taxation of company cars and the limitations on the use of covenants are welcome, but nonetheless are very minor offsets to what looks a remarkably one-sided budget.

Perhaps the most intriguing confusion is in one of the most important structural reforms: that of husband and wife, which is set to take effect two years from now. Having accepted the principle of separate taxation, he has kept a "married couple's allowance", equal to the difference between the married man's allowance and the single allowance, which, amazingly, goes first to the husband, not to the principal earner. This is a very peculiar half-way house. Thankfully, the Chancellor has two years within which to have second and better thoughts.

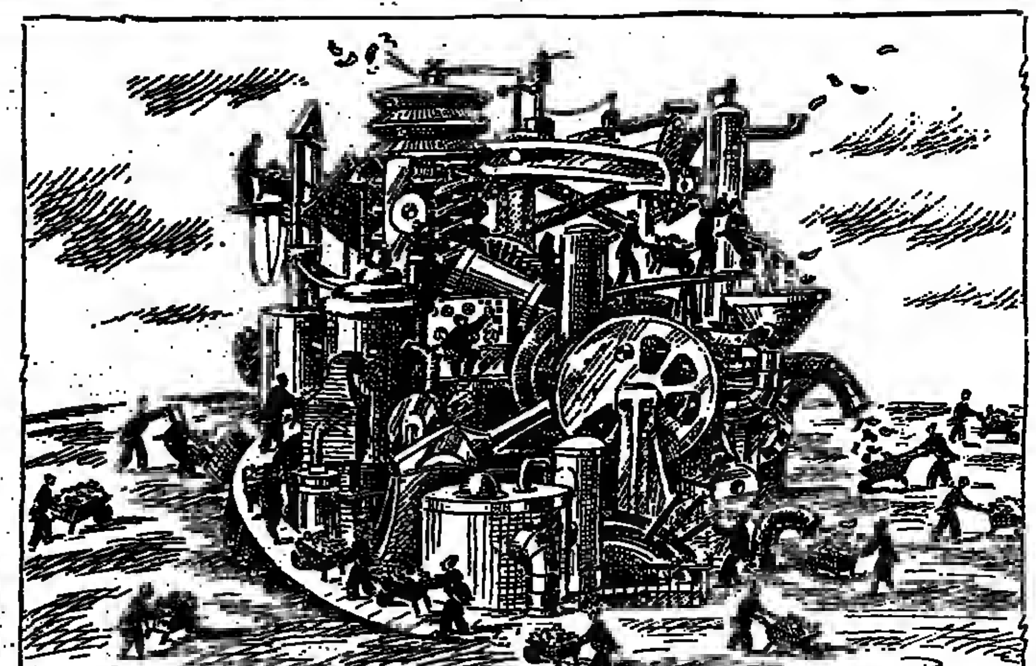
The skeleton at the feast is public expenditure, above all national health. The subject simply does not come up. It is unlikely that the resultant allocation of resources makes sense and, in present circumstances of underfunding of many essential services, quite inconceivable.

It was a good partisan performance by the Chancellor. On macro-economic policy he is in this strange position of erring on the side of risk while offering an exceptionally strong financial prospect. This is an indication of the past success of the Government. The worry is the likely difficulty in holding down sterling while meeting the Prime Minister's objective of limited intervention. So far as tax reform goes, he deserves perhaps one and a half cheers from the audience for the reduction in marginal tax rates, but loses the rest of the applause for the failure to offset the effects of so one-sided a reduction.

ECONOMICS

A fiscal balance at last

By Samuel Brittan



THIS WAS not a tax cutting Budget. If anyone thinks that this is an unfair gibe, he or she should read the first part of the Chancellor's speech. For Mr Nigel Lawson frankly admitted that the tax burden as a proportion of the national income would remain the same, but that fiscal drag would allow him to cut tax rates.

The abolition of all higher rates above 40 per cent might seem to constitute an exception *to this generalisation. Clearly,* a person on a high income will pay a smaller proportion of his or her earnings to the Inland Revenue. The Chancellor's view, which I share, is that in the long run these lower – but far from negligible – tax rates will pay for themselves through an increase in the amount of higher income earned or declared.

Unfortunately, the Financial Statement shows no such thing. It shows a cost of £2bn for the abolition of the highest rates in a full year. It is understandable that the Chancellor did not want *to appear to cheat by overruling* the Inland Revenue's naturally cautious, conservative and orthodox methods of estimation. If he had tried, the attempt would probably have leaked.

It would, of course, have been possible to lower marginal taxes with a less regressive effect by being much more severe on high earners' allowances – for instance by not applying personal allowances or mortgage interest relief against the higher rates.

I hope that some at least of the Opposition leaders will channel *their energies into campaigning* for a more genuine broadening of the tax base, rather than into thuggish disruptions of the House of Commons.

Meanwhile, the Chancellor did at least once again refuse to raise the £30,000 limit on mortgages qualifying for interest relief, which is my personal test of resistance to pressure from next door. But, in the long run, the whole ridiculous system will have to be thoroughly reformed.

Now for the things about which I am supposed to write. Nigel Lawson has frequently said that 19th century prosperity and stability were founded on two key features: the balanced Budget rule and the Gold Standard.

We now have a balanced Budget in play. The modern equivalent of the Gold Standard is still to be achieved.

The Chancellor stood his ground admirably against intolerable pressure in insisting both that the exchange rate would have a major influence in determining domestic monetary policy and that the British Government would play a full part in international efforts to achieve a more *stable system, (whatever Brian* Griffiths, of the No 10 Policy Unit, thinks). The markets will have to wait to see if the Chancellor is able to stem any further rise in sterling by reducing interest rates – in other words for a sign that Mrs Thatcher values his services highly enough for him honourably to remain at No 11.

For both the financial markets and industry, monetary policy *was,* for a year or more, regarded as maintaining a target zone for sterling of around or below DM3.

A slight rise above DM3 could have been presented as the equivalent of a realignment within the European Monetary System, or more vaguely as part of the the Chancellor's formula of "stability without rigidity." But the abrupt and brutal pushing aside of this strategy, without putting anything in its place, is regarded as an example of how not to run a government.

Indeed, about half of the many notes of congratulation I have received on last week's Viewpoint article, entitled The economic costs of Mrs Thatcher, have come from people who might have preferred a different type of monetary policy, but who think that spasmodic interference by the Prime Minister – on the basis of fleeting visits from her former guru Sir Alan Walters – are no way to run a railroad.

Exchange rate policy cannot remain in its present tentative and vulnerable state. It will not be enough to reinstate a rough D-Mark target. *It will also be necessary* to join the EMS and drive on from there to a common European currency, which should be based on the D-Mark, with perhaps a cosmetic wrapping. These developments are the natural complement of the common internal market to be established by 1992.

The aspect of macro-policy most developed in the Budget and the Financial Statement (Red Book) is fiscal strategy. The Chancellor has taken advantage of the buoyancy of the revenue not merely to announce an estimated £3bn *public sector* debt repayment both in 1987-88 and 1988-89; he has also adjusted the Medium-Term Financial Strategy to show a zero borrowing requirement as a trend estimate for the years 1989-1992.

If privatisation receipts are excluded, the medium-term objective for the public sector borrowing requirement becomes £5bn, or 1 per cent of gross domestic product – roughly the level which would stabilise the national debt as a proportion of GDP. There are other adjustments, however, which could *turn the projected balance into a* surplus, for instance adjusting interest payments for inflation, or putting capital expenditure into a separate account.

Moreover, Mr Lawson indicated that there would be both years of surplus, as at present, and years of deficit, even if the underlying trend were one of balance. Indeed, it is because I am not a fiscal puritan and want there to be room for a large swing into deficit if a real recession threatens (rather than somebody in New York crying wolf), that I welcome the establishment of *a balance in the conventional* arithmetic. It provides an excellent starting point, as well as keeping down the burden of interest payments.

The combination of a general balanced Budget requirement with numerous opportunities for fudge, provided by such things as privatisation or cyclical allowances, is about the right mixture. For we certainly do not know enough to use the Budget purely as an instrument of demand management while ignoring the state of the Exchequer accounts. The possibilities for fudge and swing *provide some room for manoeuvre,* but not an unlimited amount.

Given that we still have to devise a fully effective monetary strategy or nominal framework, there is justification for spreading the tax cuts between £4bn in 1988-89 and a pencilled-in further £3bn for 1989-90.

I would not claim to have the faintest idea what rate of real output growth constitutes overheating, a concept which should probably be buried. It is much better to look at the growth of nominal GDP, which is a rough *measure of the growth of demand* in money terms.

The crucial indicator of possible inflationary pressure is that nominal GDP grew by nearly 10 per cent in 1987-88, nearly 2½ per cent above the last Budget estimate and even further above earlier projections. The Treasury hopes to get back to a declining trend, with 7½ per cent growth in 1988-89 and then falling.

A nominal GDP objective is meant to be a guide and not a straight-jacket. The unexpected increases in trend productivity and improved international *competitiveness could well justify* raising the path. But it requires much more discussion than the Treasury gave it.

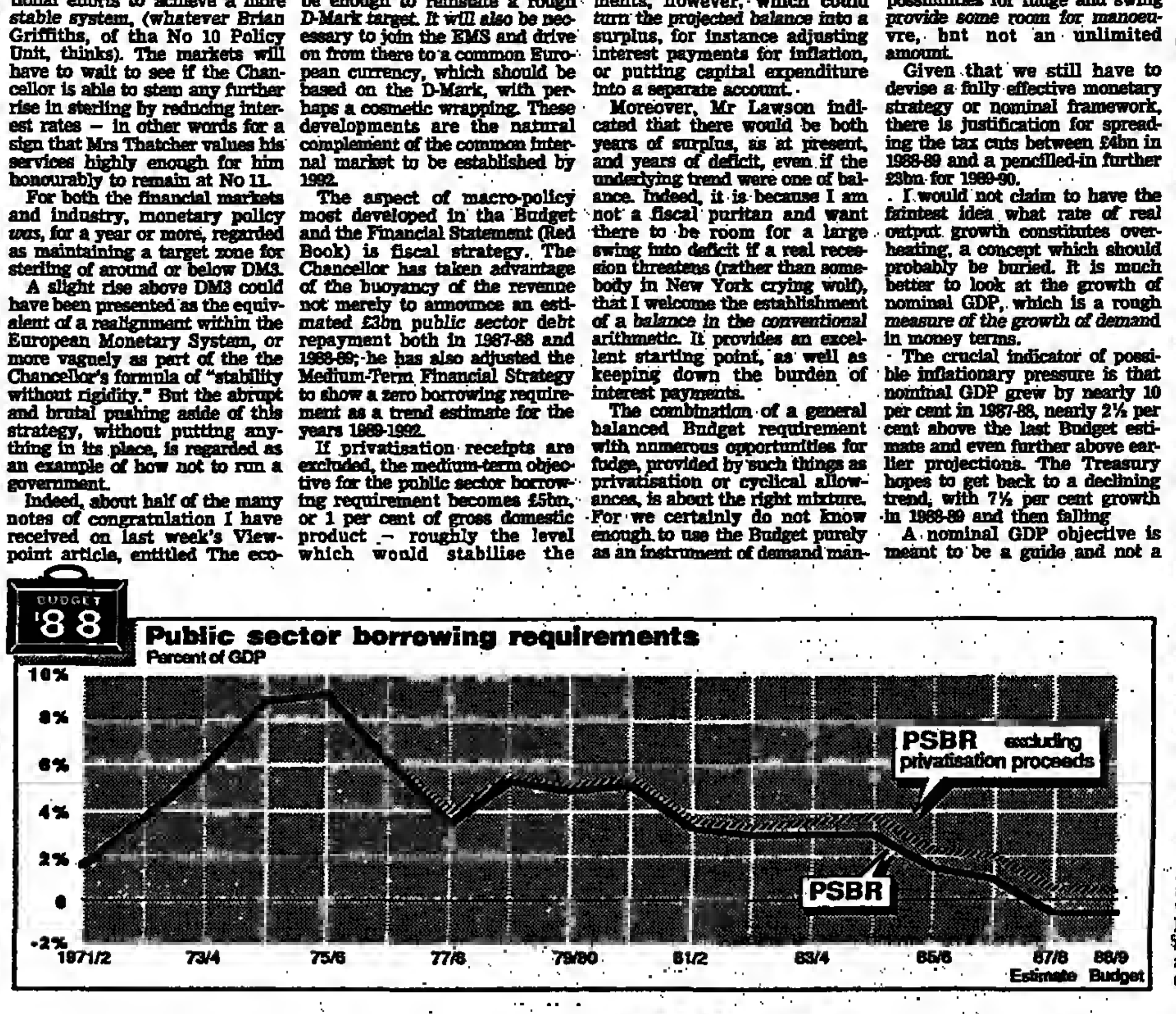
Last, and in my view least, comes the balance of payments. The real balance of payments is the movement of money across the exchanges, and this has been embarrassingly favourable, even when the statisticians have been reporting a current deficit.

The Red Book forecasts a current account deficit of £4bn in both 1988 and the first half of 1989. The Red Book gives a forecasting error of £3bn to £4bn. But *that is simply after taking into* account the official revisions which still often leave large unrecorded inflows in the so-called balancing item. I still doubt if there is any current deficit.

But even if there is, the counterpart of it is a surplus on capital account – that is foreigners are investing in the UK. In contrast to the US, this investment is not required to meet a public sector deficit, but is purely a private sector phenomenon of questionable relevance to policy.

The time to worry will be if and when overseas investors are *unwilling to put funds into* the UK without a depreciation of sterling, which really would bring inflation. The battle to stop sterling going much above DM3 is the phoney war. The real war will be to prevent it falling too much below that level.

It is because recent antics in official foreign exchange rate policy throw doubt on the willingness, or ability, of the so-called authorities to stem a movement in either direction that interest rates may have to move eventually much higher than they would have done if the Bank of England had held its ground and not gone round campaigning against the Chancellor's exchange rate strategy.



POLITICS

Day of smiles for the Prime Minister

THE SINGLE most outstanding phenomenon in Britain's House of Commons yesterday was Mrs Margaret Thatcher's smile. Sometimes it was merely patient, but mostly it was beatific. The late afternoon sun shone into the Chamber, enhancing the radiance of the Prime Minister's expression.

Mr Nigel Lawson, the Chancel*lor of the Exchequer, looked pale* and a trifle nervous as he rose from Mrs Thatchar'a side to deliver his fifth Budget speech. He had nothing to be concerned about. Everything that he said, and everything that took place in tha House as ha said it, confirmed that the Thatcherisation of Britain is atill proceeding apace, with no serious obstacle in its path.

Those who might have expected reverberations of the past week's argumsnt between the Chancellor and the Prime Minister over the management of the exchange rate were disappointed. Mr Neil Kinnock, the Leader of the Opposition, could have tried to reopen the fresh wound at Prime Minister's Question Time, which preceded the Budget statement. Instead, to his moral credit, he raised the matter of the Sharpeville Six, dua to be hanged in South Africa. The Prime Minister was able to show that Britain was making representations in common with other wastern countries, and all that Mr Kinnock could do was mumble his thanks and invite her to try harder.

Mr Lawson was therefore unruffled as he read out, near the start of his speech, what was plainly an agreed anodyne statement to the effect that the objective of greater exchange rate stability was a good thing and that he would continue to set interest rates at a level necessary to ensure downward pressure on inflation.

He was also able to obey rule number one of a good political Chancellor: get your possibly unpopular measures out of the way in the first Budget of a new term of office. There were several of these – although "puritanical" might suit some better than "unpopular."

It is quite a list. The scale rates for the taxation of company cars are to be doubled. "Entertaining foreign buyers" will no longer be allowable for tax. Yuppies who live in sin and get two mortgage tax reliefs of £30,000 each will no longer ba able to do so. Very large redundancy payments will be taxed *at full rates. Well-off* parents will no longer be able to supplement their allowances to their children when they go to university by covenanting the money.

All this is counter to the perceived immediate interest of one or another part of the Conservative constituency. There is plenty more. Mr Lawson did not increase beer or tobacco duties much beyond inflation, but he has put up taxation on petrol by an amount that might have been avoided in a pre-election year. "Home improvement" loans will no longer attract mortgage tax relief. The subtle changes to capital gains tax will affect individuals in different ways – but the lower exemption and the link to incoms tax means that many who would pay 30 per cent this year will pay 40 per cent after April 5.

Such measures will be part of tax reform history well before the next general election. Meanwhile there are this year's tax reductions. Ths doubling of allowances, the reduction in the standard rate of income tax by 2p and the dramatic cut in the top rate from 60 per cent to 40 per cent is likely to be popular with most Conservative or potentially Conservative voters. On top of this Mr Lawson has obeyed political rule number two: always leave something in hand for later. He did this yesterday by setting a target of a standard rate of 20 per cent "as soon as we prudently and sensibly can."

Yet there was plenty for the Opposition to say yesterday, if only it had known how to say it. It was well prepared to attack the Government on two fronts: its choice of tax reductions at a time when the National Health Service is in need of extra funds, and its favouring of top earners just a few weeks before many of the worst-off in society will have to endure a reduction in social security or rent rebate payments. Its plans could not be carried out.

For a start, the Chancellor and the Prime Minister sat unruffled – indeed locked in apparently cosy conversation – as a Scottish Nationalist disrupted the Budget speech and had to be removed from the House. Not to be out-yobboed, the Labour left subsequently forced a suspension of proceedings by chanting "shame" in unison; Mr Kinnock's expression was neither smiling nor beatific. It is likely that many Labour MPs, left or right, were upset by a Budget that seemed so quintessentially Tory at a time when they sincerely believe the Health Service to be starved of funds, but the argument is not won in the House of Commons (or the country) by behaviour more suited to a town hall in a bad year. Mr Kinnock is well aware of this.

These parliamentary tribulations are not mere technicalities. Yesterday's events reflected the very real difficulty faced by an Opposition that has to fight on behalf of the quarter or so of the population that is poor, and can only win if it attracts the support of many who are comfortably off. The trouble is that some Labour MPs let their sense of outrage outweigh their understanding of political realities.

Meanwhile the Chancellor has most of the cards the well-off want (excepting, perhaps, conscience). After he sat down yesterday Labour compounded an afternoon of disaster by calling for an unnecessary division, thus emptying the House before the Leader of the Opposition could make his own major speech. When he did rise, he appealed to his own benches: "Don't get mad, get even." If only they understood him. The wonder is that the Prime Minister's beatific smile did not dissolve into helpless laughter.

Joe Rogaly

INVESTMENT

More for richer savers

AT A STROKE the Chancellor has increased by half the wealthy investor's return, net of tax, from interest and dividends. Instead of retaining 40 per cent, the top rate taxpayer will from now on keep 60 per cent. At the same time, the tax on capital gains will rise from 30 to 40 per cent. So the balance of advantage between income and capital gains has shifted substantially.

To say that the appeal of income and capital has been equalised, as Mr Lawson did, is not quite accurate, however. The existence of a £5,000 exemption means that the capital gains tax is effectively zero on the first tranche of gains, and this allowance will double to £10,000 for a married couple when the reform of tax for husbands and wives takes effect in two years' time.

Moreover the technicalities of capital gains tax will still be a fearful prospect for many amateur investors. While indexation makes it eminently fair it also ensures that it will be highly complex to calculate, and private client advisers will be disappointed that greater simplification has not been achieved. In this sense it will still be much simpler to invest in small numbers of diversified unit trusts and investment trusts rather than in a comparatively large number of individual stocks.

The more esoteric tax shelters have been greatly devalued in their appeal simply by the cut in the higher income tax rates, and indeed Mr Lawson has dealt a heavy blow to one or two such as forestry. All the same, there has been no coherent attempt to sort out many of the distortions of institutional investment, where various tax advantages are retained by pension plans, unit trusts, life assurance companies and BES schemes.

The Chancellor's very own contribution to this galaxy of tax avoidance vehicles has been the Personal Equity Plan, the Pep, where some further boost was required if the commercial impetus of management companies to market plans was to be sustained. One or two, like Fidelity, have withdrawn pending improvements, and this Budget at least offers an increase in the maximum annual contribution to from £2,400 to £3,000.

The change confirms, however, that the main scope for growth is seen to be in appealing to richer investors who will find Peps a useful way of repackaging existing portfolios, rather than to first-time investors contemplating the saving of more modest sums. The way forward appears to be in increasing the average sum invested (some £2,000 per plan in the first year) rather than in broadening the base of participation.

A repeat of last year's survey of share ownership shows that the previously rapidly rising trend has slowed markedly. There were 8.5m shareholders a year ago, and there are less than 9m now. That could well disguise a significant gain up to the October crash and a sharp setback since, so it may not be idle speculation to suppose that the existing trend may be flat or even downwards.

Certainly the Chancellor has avoided any temptation to extend the Pep concept with any Loi Monory type of tax relief and indeed that would have conflicted with his overriding aim to cut rates. But is thare a general need to increase savings incentives? After all, the savings ratio plunged to an unprecedentedly low 5 per cent in the third quarter last year.

Giving extra tax advantages to savers is a traditional approach, but Mr Lawson has gone in another direction. He is leaving more money in the pockets of taxpayers. In this connection it is worth considering the impact on standard rate payers not just of the existing cut but also the mooted eventual reduction in the income tax rate to 20 per cent.

This downward trend gives more money to spend, but it also means that the net return from investment can be higher. It could be, for instance, that the attraction of investment in bonds will increase, although inflation at 4 per cent is still too high for investors to feel as confident and secure as their counterparts in West Germany, Switzerland or Japan.

Barry Riley

PERSONAL EQUITY PLANS

Lukewarm welcome for increase

THERE WAS a lukewarm welcome for the decision to increase the maximum that can be put into a Personal Equity Plan(PEP).

Mr Derek Booker, of Lloyds Bank, which sold by far the highest number of PEPs in 1987, said the increase was very welcome. But it would do nothing to improve the attractiveness of PEPs for the man in the street.

However, PEPs would be more *attractive to anyone liable to pay* capital gains tax, following the move to equalise the capital gains and income tax rates. Instead of saving 30 per cent, the tax-free concessions provided by PEPs would save 40 per cent for the capital gains taxpayer.

Mr Ian Lindsey, of Save & Prosper, said it was too early to make fundamental changes in the PEP scheme, and the increase in the maximum was more than they had expected.

But it did appear completely contrary to the Chancellor's ambition to create a mass market for PEPs, since standard-rate taxpayers would receive reduced benefits and capital gains taxpayers would do a "damn sight better".

The Unit Trust Association said the removal of the 0.25 per cent instrument dnty on new money coming into unit trusts was welcome because it would remove a form of double taxation.

THE BUDGET: Analysis

TOP EARNERS WITH CAPITAL WILL BENEFIT MOST

Dramatic gains for the rich

THE 1988 Budget is one for the rich to a much greater extent than any of the Conservative Government's previous budgets.

Over the last nine years, since the Labour Government was imposing a top rate of 83 per cent on earned income and 98 per cent on unearned income, the average tax rate paid by a person on four times the average earnings and who takes advantage of the various reliefs available, has hardly changed from about 30 per cent of income.

The cuts in rates, rise in thresholds and introduction of new tax reliefs, for example on executive share option schemes, have been offset by the rapid rise in real earnings which have pushed taxpayers into higher brackets.

Even those on eight times the average earnings have benefited from a fall in average rates only from 50 to 40 per cent.

However, as the chart shows, this year's Budget dramatically improves the picture for those at the top end. Without any local or state income taxes and the preservation of the upper earnings limit on National Insurance Contributions (NICs), the marginal tax rates of high UK earners is now similar to their transatlantic counterparts.

This move, together with the large increases in UK managerial, if not professional, salaries, may slow down the brain drain which has been gathering pace during the 1980s. The evidence on whether it is likely to have a tangible effect on enterprise and hours worked is more ambiguous.

Perhaps the chief benefit, when coupled with the renewed offensive against the company car, will be to reduce the attractiveness of perks and tax-driven savings schemes.

For average and below-average earners, the cut in the basic rate from 27 to 25 per cent and the large increase in personal allowances is merely running to stand still. Because of the increase in real earnings, the proportion of their income which will disappear in tax and NICs will still be higher than it was in 1979.

The Chancellor's package has some similarities to the sweeping US tax reform of 1986 in which a slashing of rates was coupled with abatement of tax shelters.

However, there is an important difference. The US tax reform has increased the tax burden on many of the rich and ultra-rich who were able to shelter most of their income behind artificial schemes. Mr Nigel Lawson has made an equally dramatic cut in higher tax rates. The scope of UK tax shelters was much more limited to start with than in the US and in many cases the Chancellor's attack has been softened by the creation of other tax avoidance possibilities.

The independent taxation of husband and wife may have been presented by the Chancellor – and initially welcomed even by Labour MPs – as a blow for women's equality.

However, when the symbolism of the move is stripped away, the only substance behind the change will be to benefit the wealthier and generally older married couples.

Instead of their investment income being combined and taxed at the top marginal rate of the husband, the couple will be able to split their income-yielding assets between them so that at least one of them is pushed into a lower tax bracket.

Such a split will also allow them to make full use of the £5,000 capital gains tax exemption which will now be granted to each of them.

Those husbands or wives whose faith and affection for their less well-endowed spouses is tempered by pragmatism will no doubt employ clever lawyers to dream up ways of ensuring that the property they transfer reverts to them if the marriage breaks up.

A more perverse side-effect, in terms of transferring tax benefits from poor to rich, of the moves to abolish the penalties of marriage arises from the switch to imposing the £30,000 mortgage interest relief limit on the property rather than the individual.

This will limit the tax relief available to a group of first-time buyers buying a home jointly, while it will encourage wealthy couples to buy a second home with the benefit of tax relief on both homes.

The new capital gains tax rules on balance also favour the wealthy, at least those with long-established wealth who have been sitting on large, even if partly inflationary, gains made between 1965, when capital gains tax was introduced, and 1982.

No doubt their accountants will be looking forward to convoluted disputes with tax inspectors over what was the true value of their private companies and real estate in April 1982, the base date for the new-style tax.

By contrast, the *nouveau riche* will miss out on this tax break and will instead have to pay tax at their top marginal income tax rate of 40 per cent. However, capital gains will still be taxed far more lightly than income and the incentive for investors to use assets that convert one to the other will remain.

Firstly, capital gains enjoy a £5,000 annual exemption, secondly the gains are adjusted for inflation (which interest and other investment income is not) and thirdly the tax payable can be deferred until the assets are cashed in – and the relief granted for using the proceeds to buy another similar asset can no longer be exploited. However, the threat of a future Labour Government reimposing a tougher tax may limit the period of deferral.

The chief victim of the attack on tax shelters is forestry. The new measures will be mitigated, however, by lengthy transitional provisions and the offer of forestry planting grants, although at least the latter does not favour the highest rate taxpayers.

The funds that can be raised under the Business Expansion Scheme by a single company have been abated, but that has been offset by the extension of the scheme for those building private rental property.

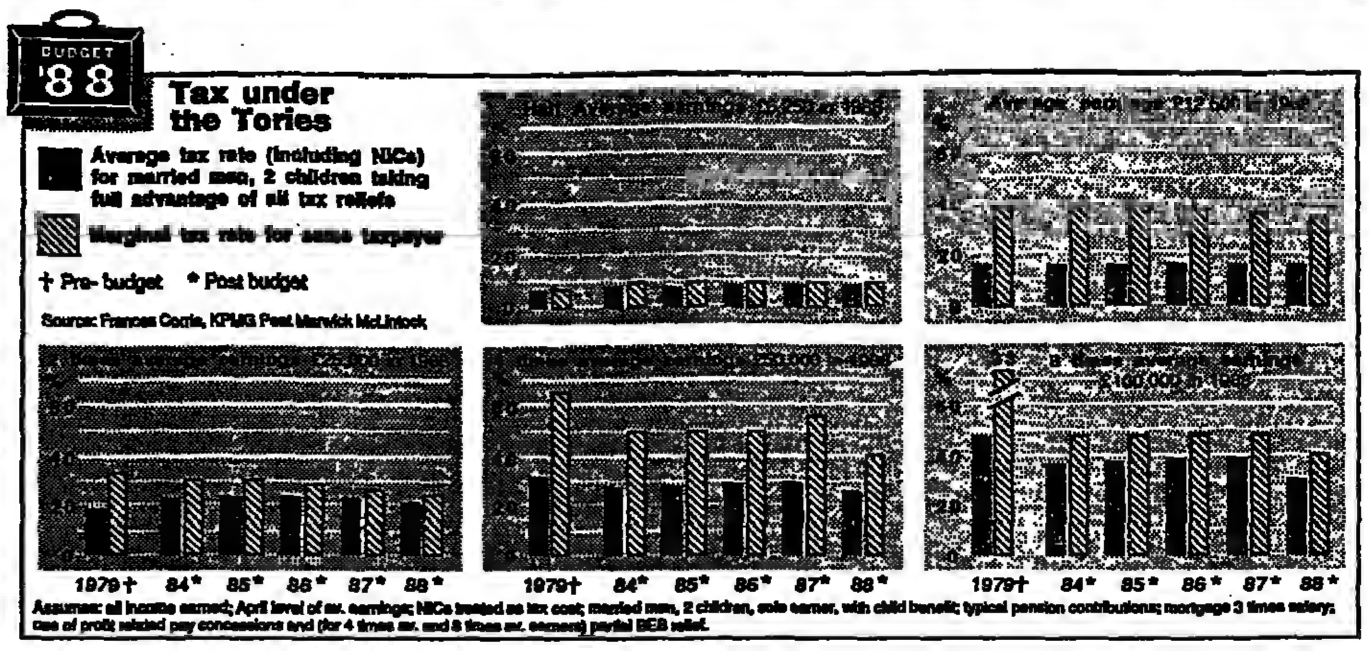
This will provide a safer asset-based investment, which has always attracted business scheme investors and may compensate for the lower value of the tax relief as a result of the cut in the top rate of tax to 40 per cent.

One partial tax shelter, the personal equity plans, which were introduced in January last year, has been extended, but once again in a way which will benefit primarily the wealthy investor rather than the small shareholder on an average income who has been the focus of the Government's rhetoric

In their pre-Budget submissions, many managers of personal equity schemes asked for full tax relief to be granted on at least the first £500 invested in a these schemes each year. This would have made the benefit to the small shareholder more substantial and enough to cover his administration charges by a generous margin.

Instead the Chancellor has merely extended the limited form of tax relief to £3,000 rather than £2,400 of investments, a concession which most taxpayers will not have the wherewithal to exploit.

Clive Wolman



TAX REFORM

An end to old-fashioned egalitarianism

THE THATCHER Government swept to power in 1979 promising incentives and opportunity in place of old-fashioned egalitarianism. Mr Lawson's fifth Budget has certainly put this philosophy into practice.

The new top rate of income tax of 40 per cent is less than half the rate which ruled for nearly four decades after the 1939-45 war. It marks an extraordinary contrast with the 98 per cent top rate (if the old investment income surcharge is included) inherited from Labour in 1979. It is lower than the top rate in most countries and comparable with that in north America if state and provincial income taxes are taken into account.

Mr Lawson has elected, against the advice of many tax experts, to cut the marginal rates faced by the well-off without taking offsetting measures to hold up their average tax rates. He has not restricted special allowances, such as mortgage interest relief to the basic rate of tax, far less turned personal allowances into tax credits that would have been worth the same to all taxpayers. Indeed, about his only concession to fairness has been to over-index the tax threshold.

The rich also stand to gain substantially from the big reductions in inheritance tax. The tax saving on estate of £2m will be around £345,000. The whittling down of taxes on capital transfers has been a recurrent theme of budgets over the past nine years. Yet there are good economic reasons for taxing capital – whether property, land or financial wealth – quite heavily. As the Meade committee argued in 1978, capital (unlike labour) provides a source of income that is compatible with a life of leisure.

The Chancellor noted that there is now no tax rate in the system higher than 40 per cent. He did not mention the 500,000-odd people left in the "poverty trap", who face marginal rates of 70-80 per cent as a result of the withdrawal of means-tested social security benefits. Nor did he mention that up to 60 per cent of welfare recipients face real cuts in benefits this April – a sobering contrast with the £4bn of tax cuts announced yesterday.

The changes can be expected to lead to a further redistribution of income from poor to rich, a trend that began in 1979 after half a century of progress towards greater equality. But then Mr Lawson's philosphy, as expressed in an *FT* interview, is that "you don't make the poor rich by making the rich poor."

It must be uncertain whether the claimed efficiency gains from lower rates will offset the social costs of greater inequality. The Institute for Fiscal Studies has pointed out that there is little evidence either to refute or confirm the hypothesis that lower rates would improve economic performance. The economy has anyway grown quite robustly in recent years *without significant cuts in tax rates* for most taxpayers.

Apart from the creation of the new two-tier *income tax structure*, Mr Lawson's longer-term claim to fame as a tax-reformer is likely to rest on his reform of capital gains tax and the *taxation of married couples*. The decision to tax indexed capital gains as ordinary income will please most economists (who argue that the distinction between the two is largely illusory) and give tax planners a little less work. Relieving pre-1982 gains from tax is more controversial, but perhaps understandable given the impossibility of extending indexation adjustments into the distant past.

The Chancellor stressed the injustice of taxing "paper" gains. One wonders, therefore, why he wants to tax partially fictitious corporate profits. The corporate tax regime he introduced in 1984 eschews even crude adjustments for past inflation, which *still significantly affects* the valuation of corporate assets. The tax should be based on some measure of companies' real economic return.

The proposals for married couples represent a big retreat from the green paper of 1986, which was poorly received. Mr Lawson then proposed equal but fully transferable allowances for spouses. Today he is advocating a more mouse-like reform: a kind of halfway house between full transferability and non-transferability of allowances.

Spouses will not be fully independent, as Mr Lawson claims, because husbands will be able to transfer the new married couple's allowance to their wives, if they cannot utilise it. Full independence would be ensured only by an administratively cleaner option: equal but non-transferable tax allowances for partners. (Extra burdens faced by some, but not all, married couples, such as the cost of child rearing, would be better handled through the welfare system). By giving the married couple's allowance to husbands rather than wives, Mr Lawson also appears to be retaining an element of sexism.

The Chancellor has taken some modest steps to curb unnecessary tax "breaks". The restriction of mortgage interest relief to properties rather than persons was correct and long-overdue. The doubling of scale charges on company cars was likewise a welcome admission that companies are paying out too much income as "perks" rather than straight cash.

But Mr Lawson can hardly claim to *have set the world on fire*: the "welfare state" for the rich remains broadly intact. Pensions still attract enormous concessions. *More will still be spent on mortgage* interest relief for the middle classes than on housing benefit for the poor.

And although the Chancellor announced a range of minor and technical tax changes, some for better and some for worse, he left much unsaid. There was no mention at all of national insurance contributions which remain a regressive levy raised on a different basis to income tax proper.

In this sense, Mr Lawson's budget was intellectually unexciting. Lord Barber floated more interesting ideas – such as his proposal for a negative income tax – in the early 1970s. Lord Callaghan was arguably more adventurous in the mid-1960s; tax reform then meant the invention of new taxes and Callaghan produced many, including a modern corporation tax. Perhaps the next Chancellor will be more imaginative.

Michael Prowse

OBSERVER

Salmond's leap to fame

■ Alexander Salmond, the Scottish National Party MP for Banff and Buchan, surprised few of his colleagues with his intervention near the end of the budget speech yesterday. He has already mastered the art of soap opera.

It was Salmond, heading the SNP publicity campaign at the last general election, who was responsible for the successful format of the party political broadcasts which on one occasion attracted more Scottish viewers than Coronation Street or Eastenders and was in the BBC Scotland top 10 programmes of the year.

Party workers in Scotland said they were unaware of any premeditation about his intervention, but he was well placed for it, occupying a corner seat below the gangway on the opposition benches.

That looked like a calculated move, but Salmond has been known to act on impulse in the past. His membership of the SNP owed much to a political argument with a former girl friend while at he was studying economics and history at St Andrew's University. She was Labour while he was taking an SNP line. If he was so committed, why didn't he join the party, she suggested. So he did the next day, after travelling first to Dundee only to be told to go back to St Andrew's and join there.

Salmond, 33, now vice-chairman of the SNP, is tipped to succeed the party leader Gordon Wilson who lost his Dundee East seat last year.

He is not enamoured with Westminster which he likens to a public school. He got into trouble in his first few days in the House when he took his wife, Moira, through a Members only door. The couple first met at the Department of Agriculture and Fisheries where he worked as an assistant economist. *She is now his secretary.*

Before entering parliament he was an economist at the Royal Bank of Scotland. He specialised for a time on energy and has won international recognition for his grasp of the oil economy.

All very Tory

■Apart from the noises on and off, which in the end only served to help the Chancellor, it was rather a good budget.

The financial details have been left to others. Yet for Observer three points stood out.

The first is how Lawson now enjoys playing on his reputation as a gambler. In fact, he is no longer gambling at all. The key adjective in both this year's budget and last was "prudent". He knows that he has a great deal of money to play with and takes pleasure in holding some of it back. Whether he believes that the whole edifice would come tumbling down if he were to leave is a subject for speculation. But the thought of the reactions to a Lawson resignation must have crossed his mind in the last few days – not without a certain amount of amusement.

The second is how much better he has become at making jokes. It is not that he could not make them before, but he was sometimes too lazy to bother. When he is not going through sustained periods of hard work, like preparing a budget, Lawson is a naturally indolent man, preferring short books to long simply because they take less time to read. Like the jokes, he can get round to the longer stuff if he has to.

The third was the statement he slipped in of conservative philosophy with a small "c". "People have a right to expect a reasonable degree of stability in the framework within which they order their affairs...But change there has to be," he said.

That explains the kind of Tory he is and why one day he might be a natural antidote to Margaret Thatcher. He has come a long way since Sir Ian Gilmour and others used to refer to him as "Niglet".

Victoria's tribute

■Queen Victoria used to say when she dined with Gladstone that he always made her feel that he was the cleverest man in the country. When she dined with Disraeli she said that he always made her feel that she was the cleverest woman in the country.

One wonders what she would have made of Lawson. Or he of her, come to that?

Watch this store

■Everything about Marks and Spencer's boardroom rearrangement yesterday – promoting Richard Greenbury to chief executive officer and dropping the chief executive part of chairman Lord Rayner's title – was characteristic of the company. As one analyst put it: "It's a shuffling of positions in the politburo."

It is a good analogy. Apart from M and S's undoubted capitalist efficiency, there are strong resemblances between Baker Street, as the head office is known, and a kind of Kremlin that has not been introduced to glasnost.

Greenbury, very much an M and S man, is aggressive. *He and Rayner together have set out to challenge old inhibitions – for example, the former reluctance to build out-of-town stores.* But he does not have a high profile with City analysts or journalists. *One* broker remarked yesterday that "as far as the financial community is concerned he might as well not exist."

The company's reluctance to talk openly leaves outsiders to speculate on what is going on behind the Baker Street facade, and a band of "watchers" has developed. Recent observations have noted board meetings lasting longer than usual and inferred that not all has been happy.

The root of the speculation lies in the belief held by City and press alike that M and S has lost its touch in its UK stronghold and is chasing dreams overseas.

M and S has not been eager to discuss such heresy or admit its mistakes. Neither of the two men involved in the announcement yesterday was available to speak to the press. M and S's band of press officers was left to field all the questions.

Criticism of the group has centred on its supposed move upmarket away from its loyal customers, a suggestion fiercely denied by Greenbury. He was deeply stung by an article in a newspaper comparing prices in M and S stores with those in rival chain store BhS. The goods, he claimed, were not remotely comparable in quality.

The evolution of Greenbury from chief operating officer to chief executive officer is also typical M and S style. Change is generally gradual – which is why the offer to buy Brooks Brothers last month came as such a shock to M and S followers – and the policy of promoting from within seems designed to keep it that way.

Chancellor's plaice

■Arthur Parrington, general secretary of the National Federation of Fish Friers, was puzzling yesterday why fish and chip shops in the south do not take the skin off their fish.

No self-respecting northern fish and chip shop owner would dream of leaving the skin on battered fish. Real fish and chips come with the skin removed, and, unless you like to eat the skin, how else can you make a fish sandwich? The Leeds-based Parrington believes it may be a question of taste or lack of it. He said: "The southerners are perhaps a bit more barbaric with their fish and chips whereas in the north we have connoisseurs. If I tried frying fish with its skin on, I would lose my own skin. Cod skin is particularly tough."

The answer may have something to do with economics since fillets cost less wholesale unskinned. That said, fish and chips are certainly cheaper in the north.

Just how the divide came about seems to be lost in the mists of fish and chip history which cannot even trace its origins. No-one is quite sure where the first shop opened, but one claimant was Malin's established in 1860 on Old Ford Road in the East End of London. The shop was demolished some years ago.

Parrington guesses that the demarcation line between the *skins and the skinless is somewhere around Watford.*

This is not the case, however, since Margaret Sanders, purveyor of fish and chips to the present Chancellor of the Exchequer, confessed that she leaves the skin on at her shop in Stoney Stanton, Leicestershire. *She even eats it.*

Chancellor Lawson takes the skins; but he would because he always has plaice, which would *fall apart cooked any other way.*

Sanders was not too pleased when he put VAT on take-away food in 1984, his first budget, a move which prompted Labour Party leader Neil Kinnock to call him the "fish and chip financier". She asked for an exemption when Lawson came into the shop afterwards and ordered his usual plaice and chips. She smiled and gave him his order. And he smiled back.

FINANCIAL TIMES
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First street battles test the Noriega regime

BY DAVID GARDNER IN PANAMA CITY

THE FIRST serious street battles in the Panamanian crisis were still raging early yesterday afternoon at three hospitals and outside the Education Ministry in Panama City, after the government dominated by Gen Manuel Antonio Noriega again failed to pay public employees.

The riots came amid growing indications that serious negotiations have begun over Gen Noriega's possible departure from the command of the 15,000-strong National Guard and from Panama.

Well-placed diplomats say that, for the first time since the turmoil began last June, the General is said to be prepared to discuss seriously a deal involving his exile.

The diplomatic sources say that an absolute precondition would be that Washington undertakes not to press for his extradition to face serious drugs charges in the US. They add that Gen Noriega has asked for more time to decide.

Mr Romulo Escobar, president of the military-allied Democratic Revolutionary Party (PRD), on Monday night vigorously denied Gen Noriega would seek asylum abroad, and in particular in Spain, which has offered it. Panama's ambassador in Madrid has been instructed to tell Spain that "at no time has the Commander of the Panama Defence Forces even remotely considered leaving his post."

In an apparent hardening of the regime's position, a US Information Service official at the American Embassy was declared *persona non grata* on Monday night. Mr Terence Kneebone, suspected of having acted as an intermediary to deposed President Eric Arturo Delvalle, still in hiding here in the US-controlled Canal Zone, was given 48 hours to leave the country. The US later refused to accept the expulsion order.

Panama's 'First Lady' gives her personal view on the political crisis to **David Gardner**

Fonteyn through the looking glass

"It's really like Alice in Wonderland isn't it," remarks Dame Margot Fonteyn, smiling radiantly through her summary of the current Panamanian crisis.

The soft breeze from the Pacific Ocean rustles the palms and the orchids, cooling the verandah of the rustically elegant farmhouse, 100km west of Panama City. This is home for Dame Margot and her husband, Mr Tito Arias, the former Panamanian diplomat, politician, and plotter.

Over iced wine and tamarind, one readily understands the line in the prima ballerina's autobiography about the London Sadlers Wells Ballet's 1949 US triumph, where she says: "In retrospect I think I won New York by smiling." Now in her late 60s, her smile has lost none of its power to captivate.

She disappears to rouse her husband, who had retired to his bed for the day, bored, she claims, by the drawn-out crisis. "I think he's going to sit this one out," she says.

Mr Arias' family are the equivalent in Panama to, for instance, the Roosevelts. His father was twice President, while his uncle, the 87-year-old right-wing populist Mr Arnulfo Arias, was probably elected President four times and certainly sent packing three times by the National Guard, now headed by Gen Manuel Antonio Noriega.

He is a veteran and victim of the hurly burly of local politics, left quadriplegic after being shot in 1964 by a rival from within his own party.

His eyes are dark wells of bubbling humour, and speaking in a barely audible whisper translated by Dame Margot, he describes the Noriega-Reagan stand-off as "the most strange (crisis) of the last 35 years."

Since Gen Noriega was publicly accused last summer of a catalogue of offences including drugs trafficking, the US has throttled his regime financially, creating an odd crisis in which, among other things, nobody can buy anything because there is no supply of Panama's currency, the US dollar.

In Tito Arias' view, "what is really shocking is that the narcotics charges probably have some basis in fact. The political geography of Latin America has changed. For instance, the drug lords of Medellin, of the Venezuela-Colombia border, and of the Amazon, have become a sort of Latin American superpower. It's very hard to deal with superpowers which don't obey any rules or laws whatsoever."

The Arias-Fonteyn family knows everyone in Panama. The late Mr Omar Torrijos, the flamboyant, magnetic general who last overthrew Uncle Arnulfo, is described by Mr Arias amiably as "a bar acquaintance."

They both regard Gen Noriega as very clever, "always the cleverest member of the General Staff and the cleverest member of the Government today," Mr Arias judges.

But like practically everyone else here they do not anticipate an elegant departure for the general. "In England you leave by the front door," Dame Margot reflects, "and retire to Chartwell or something. One of the disadvantages of this type of system is that you can't do that."

Dame Margot: "In England you leave by the front door"

Dame Margot nevertheless has a sort of innocent empathy for "this sort of system." Her autobiography carries a deliciously deadpan description of Tito's last revolution, "his sixth" she reckons, which he managed to fit in between spells as ambassador to the Court of St. James. Buried in it is the most exact description of the current crisis:

"Tito's theory of revolution was that actual fighting should be avoided. Indeed, an unsuccessful revolt was the best way to create the necessary state of tension for changes to be wrought in Government. The war of nerves had to be kept up as long as possible."

Indeed, if threats and sanctions fail to get Gen Noriega out, the US might try "Tito's favourite plot, never alas carried out...the idea of a masked ball at which all the male guests would be invited to go dressed as the President – who had a distinctive small moustache and smoothed hair style. When the party reached full swing the real President would be unobtrusively hustled away, and taken out of the country aboard a yacht, preferably Errol Flynn's to add colour to the coup."

Maybe this is what Mr George Bush had in mind when he talked menacingly 10 days ago about dealing with Noriega through America's "long outreach."

The couple live on a 600-acre working farm devoted to crossbreeding new strains of cattle. The house itself is modest, bedecked with cattle-show ribbons but seemingly no memorabilia of Dame Margot's dancing days.

She says she does not miss the theatre: "If you go on on too long as I did, you don't miss it when you give it up."

The talk turns to the ageing Arnulfo Arias, who as one of his aides put it at the time of the 1984 election Gen Noriega stole from him, needs only his 10 lucid minutes a day to dominate the Panamanian people.

Arnulfo is the last of the great Latin American caudillos, who despite his weird and even sinister ideas (in the 1940s he wanted to ban all black immigration to a mostly black country, for instance), has an undoubtedly hypnotic effect on Panamanians, even, the 1984 polls confirmed, on black people.

A practising Rosicrucian in retirement at his coffee plantation, some of his followers believe spiritual forces are keeping him alive just long enough to wreak vengeance on the military.

If Mr Arias knows when his uncle plans to return from temporary exile in Miami – to what foreseeably will be jubilant masses of Arnulfistas – he is not letting on. "He says Arnulfo has a great sense of drama and won't appear until it is the most propitious moment," Dame Margot interprets, her smile matching the mischievous twinkle in her husband's eyes.

Deadlock reached in US talks on Mideast formula

By Lionel Barber in Washington

MR GEORGE SHULTZ, the US Secretary of State, said yesterday that his talks with the Mr Yitzhak Shamir, the Israeli Prime Minister, had reached a deadlock.

This has heightened expectations of a diplomatic showdown today when Mr Shamir meets President Ronald Reagan.

Mr Shamir remained uncompromising in his rejection of proposals for a Middle East peace settlement formulated by Mr Shultz and submitted to the Israeli Government earlier this month.

Mr Shultz told reporters after the talks: "We have discussed all the various elements and we have not found a way to bridge the differences."

Despite his blunt characterisation of US-Israeli differences, the Secretary of State, who has doggedly promoted his peace plan in recent weeks, said his talks had encouraged him to pursue a solution to the Arab-Israeli conflict.

Mr Shamir said that he still saw no place in a regional peace formula for an international conference, which is one of the main elements of the "Shultz initiative."

The US-Israeli talks in Washington this week take place against a background of widespread violence in the Israeli occupied territories of the West Bank and Gaza Strip.

In a passionate speech to the United Jewish Appeal in Washington on Monday, Mr Shamir said the "land-for-peace" formula inherent in the Shultz plan was unacceptable to Israel.

He characterised the civil unrest in the territories as "a war against Israelis, against the existence of the State of Israel."

Despite an enthusiastic response from his audience, Mr Shamir faces unease within the American Jewish community over Israeli repression of violence in the occupied territories, which has left at least 90 Palestinians dead.

This has also created a broad consensus in the Administration and US Congress in favour of the Shultz plan, which calls for an international conference, followed by talks on interim Palestinian self-rule in the territories and final settlement of the Arab-Israeli conflict.

Mr Shamir, who heads a coalition government, faces opposition to his hard-line stance from his Labour coalition partners.

US officials believe they must show a united front to Mr Shamir during his four-day visit if they are to persuade him to modify his stand.

THE LEX COLUMN

Less nourishing than it looks

The market's first reaction to Mr Lawson's performance was that it was good, but not quite as advertised. Among the usual drizzle of minutiae the big figures stood out – £3bn for what is now termed the PSDR, £4bn in tax giveaways; and above all, the great, luminous number of 40 per cent, which bathed the market in a glow of satisfaction simply because it means so much more to the broking community than to the rest of us.

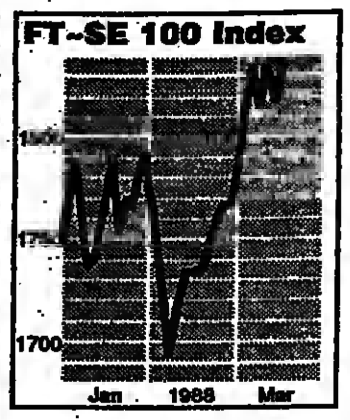
But beyond that was a slight feeling of a hole in the middle where the market most wanted guidance, on interest and exchange rates. These may not strictly be the business of a Budget, but they are very much the business of the Chancellor; and in Mr Lawson's studious brevity there was a slight sense of evasion in a tight place. Then again, the Budget had served as a distraction for the market in difficult times; and even as Mr Lawson sat down, there was the reflection that horizons must now be widened again to take in Thursday's US trade figures.

For equities, though, the Budget framework is broadly supportive: an international investor, looking at a market offering political stability, an apparently safe currency and a budget surplus instead of a horrendous deficit, would find it hard to justify buying Wall Street instead. The more fundamental question concerns gilts, which by yesterday morning were very close to a 9 per cent yield at the long end – a level breached only in the 1986 oil price slump, the election, and the October crash, in each case only briefly. Sure enough, as the £4bn tax cuts were announced the market dropped by over a point.

But to pose a threat to equities, gilt yields would probably have to go to 9½ per cent, and there is no immediate sign of that. The more pressing question for equities is – if that was the Budget rally, where now? The answer to that will not be purely domestic: unless of course fund managers, all cashed up with nowhere to go, decide to make a dash for March 31 and their first quarterly valuations of the new year.

Tax reforms

It has been a bad budget for those investment advisors who have made a living from dressing up income to look like capital gains. The move to tax the two at the same rate demands a big intellectual leap on the part of investors, who must throw away their ingrained aversion to income. However, the consequences for the markets may take more time to trickle through. Eventually, some high tax payers will move from equities to gilts to escape the new high CGT rates, while, within the gilt market, low coupons could be pushed further into obscurity.



Meanwhile, the forgiveness of all pre-1982 capital gains liabilities should have a much stronger instant effect. The celebration started late yesterday in the shares of life companies – which were also much relieved at escaping with their tax advantages intact – and property companies. Both have large bundles of aged assets locked in by the weight of potential CGT liabilities, and the change could add to the value of the older companies by some 5 per cent. More important, perhaps, this may lead to the more active and efficient management of portfolios, and may also have the side effect of making cash bids more popular, as large institutional investors will no longer have any tax incentive for refusing them.

Otherwise the Budget was distinctly short on the little details that keep the sectors shifting up and down against each other for days afterwards. Publishers and brewers were thankful to have got off so lightly, while the booming building sector seems well able to live without home improvement grants – most of which was being spent on CD players rather than double glazing anyway.

This year's raspberry goes to the removal of capital duty. The Chancellor is surely optimistic if he thinks that the removal of a 1 per cent tax will remove the burden on companies wanting to raise equity capital. A convincing and confident rise in the market is what is needed for that.

Longer term

While individual investors will no donbt be temporarily sidetracked into scrutinising the minute detail of the various tax reforms, the longer-term message for the financial markets remains confused. Indeed, the Budget has been overshadowed hy lest week's tiff between the Chancellor and his immediate boss over UK exchange rate policy, which has raised serious questions abont the Government's future financial manegement. The authorities need to convince the markets that they are following e coherent policy and the first impressions from the Chancellor's speech yesterday are generally favourable on this latter score.

The combination of yesterday's intervention hy the Bank of England to stem the rise of sterling at around DM3.09, and the Chancellor's statement thet ha will continue to set interest rates at the level necessary to ensure downward pressure on inflation, indicates that the embarrassing rift over exchange rate policy has been healed, in the short term et least. In fact, it could be argued that uncapping sterling ahead of the Budget last week has helped the authorities pre-empt another explosive upwards move in the currency, especially if foreign investors believe the Chancellor's rhetoric about the Budget being a radical one. Meanwhile, he seems as committed as ever to greater exchange rate stability.

However, despite his fine words, the Chancellor still faces an unhappy dilemma. The strength of the domestic economy, and the absence of any particular measures to curb the rapid expansion of bank lending, point to higher interest rates down the road. On the other hand, the relatively high level of sterling interest rates means that any further strengthening of sterling will force the authorities to cut rates. If the market suffers a Budget hangover, it will come in the realisation that the Government has no more room for manoeuvre than before over its most pressing economic threat: a combination of high real interest rates, a high currency and a downturn in economic activity in the rest of the world.

Palestinian bomb-makers die in blast

TWO Arabs were reported yesterday to heve killed themselves when a bomb they were preparing exploded prematurely.

Two others were shot dead by Isreeli troops in renewed violence in the Israeli occupied territories, bringing the unofficial death toll since the troubles began to 96.

The bomb deaths happened in the Gazan border town of Rafah, but tbe Israeli army could not confirm the deaths, believed to have occurred on Monday night.

In addition to the latest fatal shootings, about a dozen people received bullet wounds during a day of widespread violence in the occupied territories.

Following an announcement by leaflet and on Palestinian clandestine radio stations, the first day of a planned two-day general etrike was widely observed yesterday in both the Gaza Strip and West Bank.

Arabs turn heat on 'informers'

Continued from Page 1

Lnckier was the Mukhtar, the traditional village head, of Biddiya, a community only a couple of miles from the Israeli border.

Implicated a few years ago in an unsavoury political scandal involving the fraudulent sale of Palestinian land to Israelis, he was eble to hold an angry crowd at bay with his Uzi long enough for the Shin Bet to come to his rescue.

In the Jelazoun refugee camp near Jerusalem, 14 alleged collaborators were badly beaten up. In the Nusseirat camp, in Gaza, where the mayor was wheeled out recently hy the Civil Administration for a brief exchange of pleasantries with Mr Yitzhak Shamir, the Prime Minister, the municipal official'e car was burnt out.

Palestinian merchants and farmers are also involved in the "network of dependency" which Israel has been trying to create.

They are forced to curry favour with the authorities at Beit El, the dingy headquarters of the military-run Civil Administration for the occupied territories, for export licenses and other precious permits.

Relying on the proven colonial practice of divide-and-rule, the Civil Administration would attempt, for instance, to buy off Palestinian demands to export farm produce to the European Community by offering individual producers lucrative quotas within Israel's own export system.

Those who did not play along would face almost insuperable hureancratic obstacles to their own shipments.

Israel has long sought, without success, to co-opt local pro-Jordanian notables as an alternative, more "moderete" leadership to that of the Palestine Liberation Organisation.

Some were appointed by the Israeli military to administrative posts in the Arab municipalities. Others took part after 1977 in Ieraeli-sponsored "village leagues" – an idea which was recognised as a non-starter long before their heads announced last month that they were resigning and throwing in their lot with the uprising.

Senior officials from the Civil Administration, such as its co-ordinator, Mr Shmuel Goren, who is a former top official in the Mossad intelligence service, insist that the system is still functioning. But the hollowness of the claim is becoming increasingly transparent.

In an attempt to show who is really in charge of the West Bank, the underground leadership has called on teachers to defy the order and go back to their classrooms.

It is being whispered loudly in Palestinian circles that Fatah, Mr Yasser Arafat's branch of the Palestinian Liberation Organisation,does not approve of the killing of collaborators.

In the same way, it has made known that it disapproves of broadcasting of the names of Palestinians accused of working with the Israelis. Such actions sow divisions in the ranks of the broad common front Mr Arafat is struggling to maintain.

Responsibility is put instead on the more extreme Damascus-based factions, pushing hard to sabotage any hint of compromise with Israel or the US and to take over leadership of the unrest.

Over the past three months, de facto control over much of the West Bank and Gaza strip has slipped, almost unnoticed, out of Israel'e hands.

The loss was symbolised by the defiant little village near the town of Bir Zeit which briefly declared itself "a liberated zone."

Bnt another subterranean struggle now appears to be underway, to establish who will eventually emerge as the successor authority, in practice if not in name.

EC sets date for corporate tax plan

By David Buchan in Brussels

THE EUROPEAN Commission hopes to make proposals to European Community governments on ths harmonisation of company taxation by late summer, it said yesterday.

It would still, however, be some time before such "concrete proposals" could be put to the 17-man Commiseion for its approval.

A spokesman said the Commission was reviewing and updating corporate tax harmonisation proposals made as long ago as 1975.

It was responding to "concerted pressure from trade and industry," as well as its own conviction that completion of a single EC market by 1992 required some action on corporate taxation, the spokesman said.

The 1975 proposals were out of date, he added, and "account must be taken of developments since then, not least in the US and the UK."

Preliminary drafting work has been in hand for the past several months, but no formal Commission decision has been made on what line to take on issues such as harmonisation of companies' taxable income and rates of tax in the various EC member states.

"The Commission has decided nothing except that completion of the internal market requires something in this area," the spokesman said.

The Commission's general concern is that national differences in direct, as well as indirect, taxes could distort capital flows and investment decisions.

But there is sensitivity among national governments, in the UK and elsewhere, at moves in Brussels which could erode their fiscal prerogatives.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	15	59	Dubrovnik	S	14	57	Malta	S	22	72	Rhodes	S	19	66
Algiers	C	17	63	Edinburgh	R	7	45	Manchester	R	10	50	Rio de J'o	C	33	91
Amsterdam	C	8	46	Faro	S	20	68	Manila	F	35	95	Rome	F	15	59
Athens	C	20	68	Florence	F	16	61	Melbourne	C	17	63	Salzburg	C	7	45
Bahrain	C	20	68	Frankfurt	C	3	37	Mexico City	F	25	77	San Francisco	C	8	46
Bangkok	F	35	95	Funchal	F	18	64	Miami	C	28	82	Seoul	S	8	46
Barcelona	S	14	57	Geneva	S	12	54	Milan	S	15	59	Singapore	F	33	91
Beirut	F	18	64	Gibraltar	A	18	64	Montreal	Sn	-2	28	Stockholm	F	-1	30
Belfast	R	5	41	Glasgow	R	5	41	Moscow	C	0	32	Strasbourg	C	10	50
Belgrade	C	14	57	Guernsey	R	10	50	Munich	C	8	46	Sydney	F	21	70
Berlin	C	5	41	Helsinki	Sn	-3	27	Nairobi	-	-	-	Taipei	C	20	68
Biarritz	S	16	61	H. Kong	C	26	79	Naples	F	16	61	Tangier	C	16	61
Bombay	S	31	88	Innsbruck	F	10	50	Nassau	C	30	87	Tel Aviv	F	19	66
Bordeaux	C	12	54	Inverness	R	1	34	New Delhi	F	26	79	Tenerife	F	20	68
Brussels	R	10	50	Islamabad	R	16	61	New York	F	8	47	Tokyo	C	16	61
Budapest	C	5	41	Istanbul	F	15	59	Nice	S	16	61	Toronto	Bn	-2	28
B. Aires	F	28	82	Jakarta	R	33	91	Nicosia	F	18	64	Tunis	R	17	63
Cairo	F	22	72	Jersey	D	11	52	Oporto	C	13	55	Valencia	S	22	72
Cape Town	S	25	77	Jo'burg	F	25	77	Oslo	F	3	37	Venice	S	14	57
Caracas	C	27	81	Lima	F	27	81	Paris	C	11	52	Vienna	C	3	37
Casablanca	F	17	63	Lisbon	F	17	63	Peking	F	7	45	Warsaw	Cn	1	34
Chicago	F	-2	28	London	C	12	54	Prague	Sn	0	32	Washington	F	-2	28
Cologne	R	8	46	Los Angeles	C	24	75	Reykjavik	F	-2	28	Zurich	F	11	52
Copenhagen	F	1	34	Luxembourg	C	7	45								
Corfu	S	16	61	Madrid	F	19	66								
Dallas	-	-	-	Majorca	F	17	63								
Dublin	R	8	46	Malaga	S	22	72								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

UK Budget reaction

Continued from Page 1

"elightly chancy". It could increase overheating.

Mr Martin said the Budget failed to clarify the dispute over exchange rete policy betwasn Mrs Thatcher and Mr Lawson. "We will probably have to see the pound rise above the DM3.20 level before we see who won that argument," he said.

Mr Kevin Boakes, Chief UK economist at Greenwell Montagu, reported "slight disappointment" at the extent of tax cots. He feared it would do little to slow the pace of growth in consumer epending which is increasing upward pressure on inflation and sucking in imports.

Mr Nicholas Knight, equity strategist at James Capel, said market reaction to the budget was cautious, reflecting a conservative outlook since October's stockmarket crash.

Mr Malcolm Roberts, economist at Solomon Brothers, said the projected PSBR surplus and size of tax cuts were "at the limits of acceptability."

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Wednesday March 16 1988

Court seeks SEC advice in FDS takeover battle

BY JAMES BUCHAN IN NEW YORK

A CRUCIAL COURT ruling that could decide who will control Federated Department Stores, the biggest US department store group, has been delayed at least until today while a Manhattan judge seeks guidance from the Securities & Exchange Commission on the case.

Judge Leonard Sand said late on Monday that he is seeking an opinion from the SEC over a lawsuit brought by R.H. Macy, the private New York retailer, against its rival in the battle for Federated, Campeau of Toronto.

Macy's, which is offering $5.44bn in cash and a package of securities for Federated and has the support of the Cincinnati group's board, claims that Campeau is unfairly trying to stampede Federated's stockholders into accepting its offer.

The Campeau offer, which is for $6.02bn in cash in two stages, was set to close this Friday, weeks before the Macy's offer.

Macy's says Campeau's offer, which was revised on March 2, is in fact a "new offer" for the purposes of the SEC and must be open for at least 20 business days from then.

It says the Campeau bid, which provides $75 a share for the first 80 per cent tendered but only $44 for the remainder, is "coercive."

Judge Sand will also rule on Campeau's suit to invalidate Federated's "poison pill" defence against hostile takeover.

He said that both companies must keep their offers open for three days after his poison-pill ruling, effectively extending Campeau into next week.

As all three companies jockeyed for position before Judge Sand's court, Macy's on Monday improved its cash offer by $200m to $77.35 a share for 80 per cent of the company.

But this was at the expense of reducing the second part of the offer, which is in shares in the future combined group.

Federated stockholders will receive 36 per cent instead of 40 per cent of the new company, the difference going to the bond investors financing the extra $200m.

Campeau, a Toronto-based retail and property group which already owns Allied Stores of the US, dismissed the new Macy's offer as inferior to its own.

Federated was trading yesterday morning at $65 5/8, down $ 3/8 on the day and nearly $2 from Monday's peak.

General Mills boosts income 25% to $71m

By Our New York Staff

GENERAL MILLS, the big Minneapolis food and restaurant group, increased net income by 25.5 per cent to $71.4m in its third quarter ended February, on a 10 per cent rise in sales to $1.44bn.

The group, which said it enjoyed volume growth in its food business and strong sales in its biggest restaurant chains, said earnings rose 28.6 per cent to $228.2m in the first nine months of its financial year on a 13 per cent increase in sales to $4.33bn.

Mr Bruce Atwater, chairman, said the company expected good progress in the current quarter which will "ensure another year of excellent performance for General Mills, with record earnings per share and return on equity."

In the third quarter, the group's consumer foods increased domestic volume 2 per cent for a sales gain of 7 per cent.

Stevens accepts new bid

BY RODERICK ORAM IN NEW YORK

ODYSSEY PARTNERS, a private New York investment firm, began a $61.50 a share, $960m takeover offer for J.P. Stevens yesterday after the US textile company turned down a higher proposal from West Point-Pepperell, one of its main competitors.

Stevens declined to explain why a committee of its outside directors had rejected West Point's proposal of $62.50 a share.

West Point would not comment on whether it would turn its proposal into an offer to compete with Odyssey's.

Its attempts yesterday to play down the formality of its approach to Stevens over the weekend might indicate its unwillingness to continue the bid battle.

Soma Wall Street analysts believe Stevens may be worth a few dollars a share more than Odyssey's offer, but were unsure whether West Point or another bidder would try to top it.

Stevens shares were unchanged yesterday morning at $61½.

Plessey rival lifts offer for Leigh

BY ROBERT GIBBENS IN MONTREAL

MR KENNETH ROWE, Canadian entrepreneur, has raised his bid for Leigh Instruments, the Ottawa avionics group which last week recommended a C$96.4m ($77.12m) offer from Plessey, the UK telecoms and electronics group.

A week ago, Leigh rejected an initial offer from Mr Rowe's IMP Group as inadequate. Plessey had offered C$6.50 per common share and C$25.35 for each preferred.

Now IMP is offering C$6.25 per Leigh common and C$27 per preferred.

New $105m loss forces Coleco into debt crisis

By Anatole Kaletsky in New York

COLECO INDUSTRIES, the US toys company which earned spectacular profits three years ago from a worldwide mania for its ragamuffin Cabbage Patch dolls, made a loss of $98.8m in the fourth quarter and announced that it would stop interest payments on $335m of subordinated debts.

Coleco's fourth-quarter deficit, which was substantially worse than analysts had expected, brought its total net loss for 1987 to $105.4m, on sales of $504.5m.

Coming after the $111.2m loss the toymaker reported in 1986, the latest results appear to have left the company in critical financial difficulties.

Coleco made profits of $85m in 1985, but its fortunes have fallen precipitously since then, as the general difficulties in the US toy industry were magnified by an ambitious and highly leveraged expansion programme.

Reflecting the seriousness of the situation, Mr Arnold Greenberg, chief executive, told shareholders in a letter sent out on Monday that "the company does not intend to make subordinated-debenture interest payments" and urged debenture holders to accept a debt-for-equity exchange offer which he would outline within the next few days.

The exchange offer would almost certainly involve Coleco's lenders swapping their $335m of debentures for common shares which have collapsed in value during the past 12 months.

The Coleco debentures to be exchanged are currently trading at around one quarter of their face value, according to analysts in the junk bond market. The company also said that it was negotiating with its banks for the renewal of a $150m line of credit.

Roderick Oram looks at the troubled flight path of Texas Air

Lorenzo offloads excess baggage

MR FRANK LORENZO claims he never intended to create the largest airline company in the US. He roared down the takeover trail only to create "critical mass" for Texas Air, his main holding company, as deregulation made the industry viciously competitive in the 1980s.

But, along the way, Texas Air became the biggest. Today, more than one in five domestic American fliers travel on its Continental and Eastern subsidiaries. It also became a terrible mess, running up some of the biggest losses and passenger complaints in the industry. In recent months, though, the tide may have begun to turn for Mr Lorenzo, as he zealously pursues his goal of building a huge, smoothly functioning, low-cost, but profitable, pair of carriers which will dominate the skies.

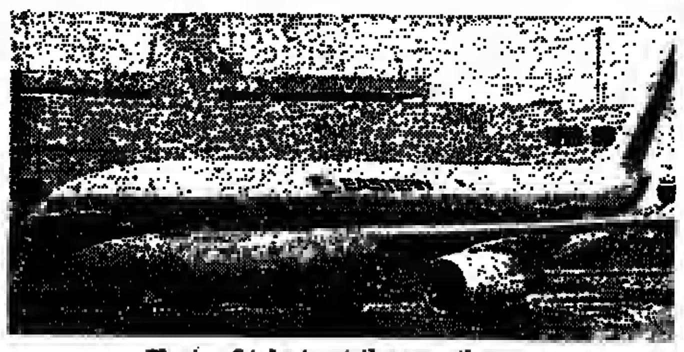
Continental is beginning to overcome huge problems created last year by the doubling of its capacity through the acquisition of People Express, Frontier and New York Air. Merging four airlines into one became a nightmare of lost bags, chaotic reservations and schedules and deeply demoralised workforces.

Although Mr Lorenzo was able to give full rein to his often stringent cost-cutting methods at Continental and the other airlines absorbed by it, he has had to wait two years for the chance to take a crack at Eastern's International Association of Machinists.

When he took over the long-troubled airline in February 1986, the machinists, representing 12,000 mechanics, baggage handlers and other employees, were the only union to hold out against wage concessions. Not known for his patience, Mr Lorenzo could do nothing but wait for their contract to expire at the end of last year before demanding steep pay cuts.

Negotiations were soon broken off and, although a government mediator is trying to bring the two sides together, it seems likely the union will go on strike or be locked out at some time during the second quarter.

Eastern, which says it would prefer to avoid a strike, has been lining up replacement workers since last November and, armed with a war chest of at least $300m, claims it will be able to maintain a full flight schedule. It has also taken other measures designed to undermine the union's tactical strength.



Plenty of talent out there on the ramp

Against the backdrop of losses, which ran to $182m on revenues of $4.4bn last year, Eastern slashed its workforce by 10 per cent, trimmed schedules and transferred some of the airline's assets, notably some of its most modern aircraft and its computer reservation system, to other Texas Air subsidiaries. Mr Lorenzo's most controversial move was to spin off Eastern's profitable Boston-New York-Washington shuttle into an autonomous unit.

The union last week won a court injunction – preventing the sale of the unit to Texas Air, Jet Capital, Mr Lorenzo's private company, and outside investors – but the legal victory will do little to even up the battle.

"There's not a lot of carrot but there's a lot of stick to this fight," said Mr Anthony Hatch, an analyst with Argus Research in New York.

Eastern's wage bill averages $42,300 per employee, compared with $28,200 at Continental, where Mr Lorenzo broke the unions during a bitter strike in 1983 to 1985. He also resorted to bankruptcy court protection to force employees to renegotiate their contracts. Now, at Eastern, he is seeking pay cuts averaging 60 per cent to save $265m a year in labour costs.

Skilled workers, such as mechanics whose pay is closer to industry averages, face the smallest reductions, plus major changes in work rules and grades. Low-skilled workers, however, are confronted by huge cuts.

Eastern proposes, for example, slashing baggage handlers' hourly pay from $15.60 to $8 for existing workers to $5 for those newly hired. However, it is offering to retrain baggage handlers to be, for example, aircraft mechanics. "We've got high talent out there on the ramp," an Eastern official said, "including people who have given up teaching jobs and have college degrees."

Mr Lorenzo has said repeatedly he will not take Eastern to the bankruptcy courts to wring a settlement from the reluctant machinists. But other industry executives believe he will take whatever steps, even bankruptcy, to get concessions.

Further attempts to sell such Eastern assets as its Latin American routes to other parts of Texas Air are a possibility.

The recent court ruling required him only to negotiate in good faith with the machinists before selling the shuttle. Once mediation and a strike countdown have run their prescribed course, it will be far harder for the unions to block the sale, even though they are part owners. In return for earlier concessions, the airline's unions own 20 per cent of an issue of preferred shares and have four seats on its board.

"There's a legitimate possibility that Eastern may not survive," said Mr Mark Daugherty, an analyst with Dean Witter. A wholesale transfer of Eastern aircraft and crews to Continental remains unlikely at the moment, though, because the latter is still trying to iron out the problems from last year's mergers.

More staff, new baggage-handling and terminal facilities and other remedial action have helped push the airline up the federal Government's monthly performance charts. But it is no better than average, just as it tries to woo back passengers, particularly full-fare business travellers, with such *mea culpa* advertisements as: *"We grew so fast we made mistakes."*

Fortunately for the industry – and for Eastern – it is enjoying a buoyant year. Airline traffic could grow by about 6 per cent this year and revenue yields per seat grow by some 5 per cent, the first rise in yield in several years. Even with such a favourable environment, Continental and Eastern's problems are so deep they are likely to keep Texas Air in the red this year, after its spectacular loss of $466m, one of the worst in US airline history, on revenues of $8.6bn last year.

Its survival is not in doubt, though. Thanks to earlier profits at Continental and deft fund raising before it nosedived, Texas Air had some $1bn of cash in hand at the end of the year.

Wall Street remains deeply disenchanted with Texas Air, leaving its stock to drag along at about $12 a share, compared with its 52-week low of $8¾ and a peak of $44 when investors were high on the idea of Texas Air as the dominant low-cost carrier.

Analysts are reasonably confident Mr Lorenzo will beat Eastern's machinists, a victory which will complete a decade-long process of assembling the parts of a huge airline company. But having built his reputation as a wheeler-dealer, Wall Street is now keen to see at last if he can actually run the show.

INTERNATIONAL COMPANIES AND FINANCE

Peter Bruce reports on a resurgence of merger speculation among Spanish bankers

Rivals run their eye over Banco Hispano

BANCO HISPANO Americano may no longer be Spain's third largest bank. But since recovering from its brush with financial purgatory three years ago, it is in danger of becoming the nation's most assiduously courted institution.

The reason is that the merger mania which appeared to grip the share prices of Spain's Big Seven banks – first in November with Banco de Bilbao's failed bid for Banco Español de Credito (Banesto) and then its successful merger deal with Banco de Vizcaya in January – seems to have narrowed to just three players.

Both Bilbao and Vizcaya have made it clear they do not have room for another Spanish partner.

Banco de Santander insists it wants to stay independent (and largely family owned) and Banco Popular, the smallest of the seven, has a fierce individualist as chairman and strong links with the Catholic *Opus Dei* movement. Analysts say this would make it difficult to absorb.

Hispano, then, seems to be left facing two suitors – Banesto and Banco Central, the country's biggest private bank.

Hardly a day goes by in Madrid without fresh speculation about the trio. For what it is worth, this week's hot money is on Central and its bulldog chairman Mr Alfredo Escamez making off with the bride.

In 1985, Hispano became the first leading Spanish bank to pass up payment of a dividend. It had to devote its entire 1984 Pta25bn ($223.4m) trading profit to shoring up Banco Urquijo, its ailing subsidiary.

Claudio Boada: denies he is negotiating merger

With a new government-imposed chairman and a Pta60bn aid package, the bank has slowly recovered, making net profits of only Pta13bn last year compared with Pta9.5bn in 1986. But that was after raising its reserves by Pta68bn and making other provisions which officials say clear the bank's return to high profitability.

Both Mr Escamez and Banesto's new chairman, Mr Mario Conde, have flirted with Hispano in recent weeks. Conscious of its new attractions, Hispano has taken on board Shearson Lehman as financial adviser. Shearson's advice remains a closely guarded secret but one report of its "contents" has amused Hispano officials.

Shearson, according to the report, suggests that Hispano link with Central, as Central does not have a clear business strategy and would therefore be a more malleable partner.

However, this reasoning, say senior Hispano officials, is compelling only until it is put to the test. "Politically speaking, Central is a mess," they say. "The big difference is that with Mario Conde you are talking to a real boss.

"With Banesto you know who you are talking to and that's a real asset."

Mr Claudio Boada, Hispano chairman, told shareholders last weekend that the report (he did not name its authors) did not make specific recommendations and he insisted that the bank was not actually negotiating a merger. But, he said, a merger would have one advantage: "A large bank is a magnificent defence against raiders."

The problem at Central is that Mr Escamez is at odds with his leading shareholders, a recently-established joint holding of about 12.5 per cent between the Kuwait Investment Office (KIO) and "Los Albertos" – Mr Alberto Cortina and his cousin Mr Alberto Alcocer, whose construction company Construcciones y Contratas, has begun to invest heavily in Central.

Mr Escamez, 73, is one of the great figures in Spanish banking. Understandably, feeling his position threatened, he has sought to demonstrate his independence by initiating his own contacts with Hispano. The Albertos have not concealed their exasperation with him.

Mario Conde: has flirted with Hispano recently

Mr Escamez's other tormentor is the Government, which has convinced itself that seven big banks are too many and that there should be fewer but bigger players before 1992, when the country opens its doors to European Community competition.

Naturally, the Government wants people more sympathetic to it than Mr Escamez to emerge at the top of these new banks and, in its enthusiasm, much of the merger rumour-mongering in financial circles in Madrid can be traced back to ministers or bureaucrats.

Sentiment at Hispano is mixed. Having pulled itself off the floor there is an understandable impulse to stay independent – not counting, that is, the friendly 10 per cent stake held by Commerzbank – and hope that the fashion for merging passes.

Mr Boada, pressed on Hispano in 1986 by the Government, plays his cards very close to his chest. Officials say he is anti-merger but will not criticise government policy and also would not want to close his ears to any compelling offers.

If Hispano had to choose a partner from the two apparently most available, it would probably favour Banesto which has a strong and efficient industrial arm and a less than brilliant banking management.

An Hispano official suggests: "Merging with Banesto would make good sense for two or three years because the Banesto industrial group could finance the merger."

Hispano personnel *feel* they would at least be able to contribute something important – their own battle-hardened banking skills – to such a merger.

No doubt the intrigue and rumour mill in Madrid has still some way to grind. The stakes are very high and some of the players – Mr Escamez and Mr Boada – are close to the end of their careers. They will want to go out in style.

Novo sees modest recovery this year

BY HILARY BARNES IN COPENHAGEN

EARNINGS BY Novo, the Danish insulin and industrial enzymes manufacturer, deteriorated in 1987 for the fourth successive year, but the dividend is to be maintained at 20 per cent.

Novo expects a modest recovery for the current year with profits growth forecast to exceed the upturn in sales.

Net turnover increased by 18.7 per cent to DKr4.91bn ($773m), including Ferrosan, the Danish pharmaceutical company acquired by Novo at the end of 1986. Sales excluding Ferrosan increased by about 2 per cent.

Pre-tax earnings were down by 12 per cent to DKr692m and net profits by 5.4 per cent to DKr477m. This represented a fall from DKr20.45 to DKr18.73 a share.

The deterioration was attributed to slower than forecast sales growth, continued high development and marketing costs and lower net financial income.

Sales of enzymes this year are expected to grow in line with the market, but insulin sales will grow at a slower rate.

Pharmaceutical sales increased by 5 per cent to DKr2.61bn, with insulin accounting for 81 per cent. Novo's share of the world market for insulin declined from about 36 per cent to 34 per cent.

Sales by the bio-industrial group fell by 2 per cent to DKr1.69bn but Novo's 50 per cent share of the world industrial enzymes market was maintained. Ferrosan's sales increased by 4 per cent to DKr641m and its profits rose sharply.

Linde to raise dividend as earnings top DM59m

BY HAIG SIMONIAN IN FRANKFURT

LINDE, THE West German industrial gas and mechanical engineering group, is raising its dividend to DM12.50 a share from DM12 after increasing after-tax profits to DM59.5m ($35.8m) at parent company level in 1987, against DM57m the previous year.

However, Linde's share price closed DM13 lower at DM562 in Frankfurt yesterday.

Group sales rose by 6.6 per cent to DM4.1bn in 1987, while new order levels increased by 4.3 per cent to just over DM4bn. Linde said the DM296m invested in fixed assets was "well over depreciation levels," and that its workforce rose by 2 per cent to 19,646.

Metallgesellschaft, the international base metals and engineering group, raised after-tax profits at group level to DM89.6m in the year to September 30, against DM98.2m the previous year. The DM6 a share dividend remains unchanged.

● The issue price has been set at DM155 for shares in Deutsche Verkehrs-Kredit-Bank (DVKB), the bank run by the state-owned German railways, which is being partly privatised this month.

The 24.9 per cent flotation of DVKB, which is the first new issue on the German stock market since last October's crash, will raise almost DM65m.

DVKB has forecast a renewed DM6 a share dividend in its prospectus.

The bank increased partial operating profits last year by 15 per cent, although no precise earnings figures were given.

Sampo plans $187m rights issue

BY OLLI VIRTANEN IN HELSINKI

SAMPO, THE Finnish insurance group which went public only two months ago, is to raise about FM750m ($187m) through a one-for-one rights issue.

Sampo will offer up to 2.98m new A shares at FM250 each. The shares traded at FM505 in Helsinki yesterday. Same terms apply to the 20,000 existing B shares.

All Sampo stock, like that in other Finnish insurers, is available for foreign investors but only the A shares are quoted on the Helsinki Stock Exchange.

INTL. COMPANIES AND FINANCE

Hongkong Bank profits rise 17.6%

BY DAVID DODWELL IN HONG KONG

HONGKONG AND Shanghai Banking Corporation, which in November advanced its global ambitions when it acquired a 14.9 per cent stake in Midland Bank in the UK, yesterday announced profits after tax and transfers to inner reserves, of HK$3.59bn (US$460.2m) for 1987, a 17.6 per cent improvement from profits of HK$3.05bn in 1986.

The bank was affected in 1987 by a loss of US$409m at Marine Midland Banks, its wholly-owned US subsidiary. These were due to provisions of US$600m made against loans made to highly indebted developing countries, mainly in Latin America. Hongkong Bank's US$270m share of these provisions was taken directly into inner reserves, however, and so had no direct impact on profits.

Aside from these provisions, Mr Willie Purves, Hongkong Bank chairman, said Marine Midland made a US$50m contribution to group earnings.

Against a generally buoyant set of results, Mr Purves also revealed that James Capel, Hongkong Bank's UK stockbroking arm, made a loss of £14m (US$25.9m) last year after being "adversely affected by the October share market collapse."

He noted that Capel had "traded very profitably" in the nine months up to October. Its full-year operating outcome – separated out for the first time – is in contrast with results from Wardley, its merchant banking group, which last week reported record net profits of HK$430m, up from HK$177m.

Mr Purves added yesterday that CM&M, the New York-based primary dealer in government securities, also had a "very successful" year.

The bank's figures were largely unaffected by the investment in Midland Bank, since the purchase of this stake was completed only in November. Mr Purves gave no signal of the bank's plans with Midland, which recently announced a £505m loss in 1987 due to substantial provisions against loans to Third World borrowers.

Hongkong Bank is paying a final dividend of 26 cents a share, taking the total for the year to 38 cents. This compares with 36 cents in 1986. The group also announced a capitalisation issue of one new share for every 10 already owned. The reserve fund will accordingly be topped up by a transfer of HK$1.18bn from inner reserves and HK$300m from retained profits.

Bell Group sells ANM and AAP stakes

BY CHRIS SHERWELL IN SYDNEY

MR ROBERT Holmes à Court's Bell Group yesterday announced the sale of its 11.6 per cent interest in Australian Newsprint Mills (ANM) and its 8.8 per cent stake in Australian Associated Press (AAP) for a total of A$64m (US$46.7m).

The transactions continue a series of asset disposals by the Perth entrepreneur since the stock market collapsed last October. But Bell refused to disclose the name of the buyer or buyers.

Fletcher Challenge, the New Zealand pulp and paper group, is thought to be interested in ANM, but would not comment last night on the Bell deal. Mr Rupert Murdoch's News group has in recent months sought to increase its holdings in both companies.

Bell is retaining its interest in AAP Information Services, the news and information arm of AAP, through its wholly owned West Australian Newspapers subsidiary. The agency services Bell's media outlets.

The principal asset of AAP is a 13.89 per cent holding of Reuter A shares. Along with Mr Murdoch, the debt-troubled Fairfax media group is also an AAP shareholder and potential seller. Yesterday's deal may therefore be the precursor to a change in the shareholding structure of the international news agency.

Ownership of ANM, which has a plant in Tasmania, is currently dominated by Fairfax and Mr Murdoch's News group. Fletcher Challenge has previously been cited as a prospective buyer of Fairfax's 50 per cent stake for some A$300m, but no deal has yet been announced.

Mr Murdoch reached an agreement with Fairfax over ANM and also AAP and AAP Information Services last year, but the plans were stalled after the Trade Practices Commission, Australia's anti-trust agency, refused to allow the information services transaction.

Bell itself had at one stage last year agreed to acquire part of Fairfax's stake in ANM and AAP. The purchase was part of a much larger transaction involving business publications and radio outlets, but it fell through.

Now Bell has extricating itself from ANM and AAP altogether. It said yesterday it had earned a pre-tax profit on the latest deals of A$57.5m.

A Bell official said this highlighted the presence of undervalued non-core assets within Bell Group and supported the value put on the company by Bell Resources, which has made a takeover offer for Bell Group of one share and A$1 for every Bell Group share.

The sales are subject to certain unspecified conditions. Bell also said it had negotiated a newsprint supply contract with the ANM buyer for 10 years, with an option for a further 10 years.

Harmony blames state for omitting final dividend

BY JIM JONES IN JOHANNESBURG

HARMONY, THE Orange Free State gold mine, has decided not to declare a final dividend and has placed part of the blame at the Government's door.

Mr Clive Knobbs, chairman, said the decision was taken because of a production decline in the six months since September, caused in part by a shortage of skilled miners. He added that the South African Government's indecision on allowing black miners into jobs still reserved for whites was another factor.

Legislation abolishing employment colour bars on mines was passed last August, but it has yet to be promulgated by the Government.

Mr Knobbs said Harmony's profits were affected by a drop in the gold recovery grade from 3.26 grams a tonne (g/t) in June to 2.96 g/t recently and an 8 to 10 per cent production decline as underground temperatures rose in the hot summer months. He believes concentration of mining in the company's richer areas and better underground working conditions in the cool winter months will lift the recovery grade above 3 g/t and production tonnage to significantly higher levels in the coming six months.

Harmony has paid an unchanged interim of 115 cents. Last year's final was 100 cents.

● Associated Manganese Mines cut its final dividend to 100 cents from 300 cents, giving a total for 1987 of 250 cents against 600 cents, Reuter adds.

This followed a 61 per cent decline in consolidated distributable profit to R15.3m ($7.2m) from R39.4m.

At the interim stage it blamed the downturn on low shipments of manganese ore caused by a drop in European ferro-manganese production.

Msauli and Gefco expect 1988 trading to improve

BY OUR JOHANNESBURG CORRESPONDENT

MSAULI AND GEFCO, South Africa's two quoted asbestos producers, believe trading will improve in 1988, but neither forecasts substantial profits.

Gefco, which produces blue asbestos (crocidolite) at several mines in the northern Cape, fell into an operating loss last year, even though unprofitable mines were taken out of production. Its turnover was reduced to R64.2m ($30.3m) from R90.1m, which resulted in an operating loss of R1.2m before finance charges and tax, against an operating profit of R14.6m in 1987. The pre-tax loss was R4.8m, against a profit of R12.0m.

Blue asbestos sales have been particularly badly affected by health fears. Gefco believes its production will allow it to supply demand and that re-blending will allow it to sell slow-moving fibre stocks. Capital spending will be confined to unavoidable production-related projects.

Msauli, which operates a chrysotile – or white asbestos – mine in the mountains of the eastern Transvaal, lifted turnover to R40.4m from R39.1m, but suffered a lower operating profit of R2.4m, against R3.6m, and a lower pre-tax profit of R2.0m, against R2.7m.

The directors say demand was firm throughout the year, that production rose by 13 per cent and sales volume by 8 per cent. The stronger rand affected rand-denominated sales revenues. A further sales increase is expected this year.

Neither company has declared a dividend and Msauli has warned that working capital requirements will take precedence over dividends this year. Both companies are managed by Gencor, the mining house.

Strong year for Israel Discount Bank

THE ISRAEL Discount Bank group has confirmed preliminary indications that the Israeli banking sector as a whole turned in sharply higher profits last year than in 1986, in spite of increased provisions for doubtful loans, writes Andrew Whitley in Jerusalem.

On Monday the group – the country's third ranked financial institution – announced profits, adjusted for inflation, of Shl 61.9m ($40.2m at the end-year exchange rate) for 1987, compared with a miserly Shl 0.5m a year earlier.

At Shl 101m, the provisions were considerably higher than the market had expected, given IDB's relative immunity from well known problem areas in the local economy. But according to Mr Gideon Lahav, managing director, this arose from a thorough house-cleaning of the bank's loan portfolio.

IDB's overall balance sheet showed little change on 1986, in part because of the appreciation of the shekel against the US dollar. The only section of the deposits side of the ledger to show any significant improvement – 29 per cent – were so-called unlinked shekels – those accounts not tied to the US currency or to the domestic inflation rate benefiting from high local interest rates.

Gain for Straits Steamship

STRAITS STEAMSHIP, the Singapore maritime company, more than doubled pre-tax profit to S$17.1m (US$8.5m) last year from S$8.3m, AP-DJ reports from Singapore.

A lower interest bill, partly because of a one-for-four rights issue completed in June, accounted for most of the improvement. On turnover 20.3 per cent down at S$131.2m, group operating profits rose only slightly to S$14.5m from S$13.6m.

The directors said they were confident that in spite of the uncertain economic outlook, earnings woul be maintained this year.

An unchanged final dividend of 1.5 cents was declared.

West Germany's eight stock exchanges are still at odds, reports **Haig Simonian**

Frankfurt bourse seizes the lion's share

"IN THE end, it all comes down to vanity," says one senior West German stock exchange official to explain the differences of opinion which seem recently to have paralysed progress towards greater co-operation between the country's eight bourses.

The factors behind the latest obstruction certainly have little to do with obvious events like last October's crash and the consequent sharp decline in equity trading.

Rather, they involve random circumstances comprising personalities, the need for new investment and, most important, a seemingly inexorable concentration of business on Frankfurt, Germany's leading bourse, primarily *at the expense of Düsseldorf.*

What it means is that the initial efforts of the Arbeitsgemeinschaft der Deutschen Wertpapierbörsen (Federation of German Stock Exchanges) to foster closer co-ordination between the sometimes fractious markets are proving increasingly difficult as more serious commercial considerations overshadow traditional regional rivalries.

Last year's dramatic growth of business in Frankfurt has been the main culprit. The trend, visible for some time, has now been confirmed by statistics which show that Frankfurt has increased its share of total equity and bond turnover from just over 50 per cent in 1986 to almost 67 per cent last year.

By contrast, Düsseldorf's share has fallen from about 30 per cent to 17 per cent. Current figures are even more pronounced, giving Frankfurt over 70 per cent and Düsseldorf less than 15 per cent of trading.

The change has fostered a certain smugness within the Frankfurt bourse, dimming its co-operative spirit, while promoting a distinctly defensive reaction in Düsseldorf. The result has been to complicate the already difficult work of the fledgling federation.

Take the work currently under way to produce the first joint annual report for all eight bourses, due on March 24. Lengthy discussions led to a compromise format allowing each market to slot its own, slightly fuller, individual report into a pocket of the joint document — a small way of highlighting its independence within the common framework.

Many bourse officials were surprised when, soon after the agreement, the Frankfurt exchange decided to produce an additional brochure of its own.

Meanwhile, Düsseldorf is digging its heels in. It is the obvious loser in the present upheaval. *While the other bourses are* clearly secondary — if often regionally significant — markets, Düsseldorf has long been Germany's second financial centre. Frankfurt's upsurge has caused less concern among the six smaller exchanges, but Düsseldorf has found its diminished slice of the cake hard to swallow.

A similar, though less pronounced, trend is also visible on the banking side. The wave of Japanese investment banks now coming to Germany is heading straight for Frankfurt, even though Düsseldorf has traditionally been the magnet for Japanese commercial banks and trading houses in Germany.

Personal elements, above all the retirement in May of Mr Wilhelm Christians as joint "speaker" (chief executive) of Deutsche Bank, have heightened Düsseldorf's disquiet.

Mr Christians is a highly-regarded securities man whose status within the bank and in the German financial world in general has undoubtedly furthered Düsseldorf and its bourse. The city, which remains the bank's official second home, will not lose its financial role overnight, but the gradual ascendancy of the "Frankfurt faction" on Deutsche Bank's board is one more factor weakening its relative importance.

All these uncertainties have now found expression in the negotiations taking place over modernising the country's equity clearing system, an issue which has set Düsseldorf and Frankfurt interests at odds.

Germany has two competing data processing organisations for dealing with stock exchange transactions, the Frankfurt-based Börsen Daten Zentrale (BDZ), and the Betriebsgesellschaft Datenverarbeitung für Wertpapiergeschäfte (BDW), based in Düsseldorf. The BDZ processes business for the Frankfurt, Hamburg, Bremen and Hannover bourses, while the BDW caters for the other four.

Originally conceived as competitors in order to improve efficiency and reduce transaction costs, the consensus now is that the existence of two systems is cumbersome and unduly expensive and that they should be replaced by a single body with more powerful computers.

However, that is proving easier said than done. For a start, the BDZ's present IBM systems and the BDW's Siemens hardware are not compatible. Nor is the associated software which, not surprisingly, each would like to have as the new standard.

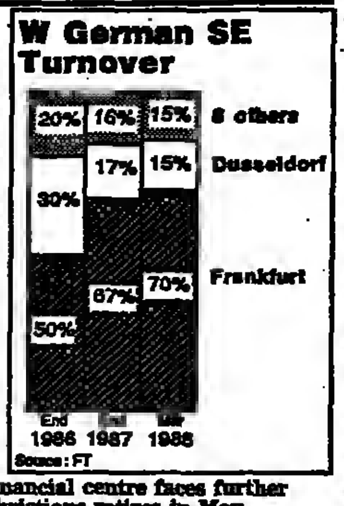
Last November, a study commissioned by the federation from a leading consultancy recommended the creation of a single agency to handle all stock exchange transactions.

The issue of how to organise and run the new entity has proved very divisive. The stock exchanges recently agreed that voting rights in the new body should roughly reflect the current division of turnover — giving Frankfurt a controlling say. However, soon afterwards, the Düsseldorf exchange unexpectedly came up with a counter-proposal which would, effectively, preserve the *status quo.* The position has progressed no further.

A solution *will be found* in the end, probably when the country's biggest banks — which effectively control the exchanges — lose patience with some of their private and regional banking counterparts, decide the *bickering has gone too far,* and take matters in hand. However, that will take longer than the "matter of weeks" suggested by Mr Rüdiger von Rosen, the federation's executive vice chairman.

One pre-condition is that Deutsche Bank, in particular, sorts out the uncertain balance on its own board between the differing interests of Frankfurt and Düsseldorf — a situation that will gradually come about once the Frankfurt-based Mr Alfred Herrhausen takes over as sole chief executive after May.

Ironically, it is one of the achievements of the fledgling federation — the preparation of joint and comparable trading statistics for all eight bourses — which has given prominence to the new business pecking order between them.



Düsseldorf's standing as a financial centre faces further decline after Wilhelm Christians retires in May

Canadian dollar sector stars with three issues

BY CLARE PEARSON

THE EUROBOND market saw a spate of issuance in the Canadian dollar sector yesterday morning, with three deals emerging to bring the total issued so far this week to C$625m.

Dealers said that, in normal circumstances, the Canadian dollar new issues market would be overloaded by now, but all this week's six bonds seemed to be reasonably successful as they were well priced and for high quality borrowers.

European investors have been *preferring* Canadian dollar instruments to Australian dollar bonds this year, partly because many buyers were singed by the sharp fall in the Australian currency at the end of 1987. The Canadian dollar has been strong, and Canadian dollar bonds are still providing an attractive yield pick-up over US dollar issues.

A C$150m two-year deal for Eastman Kodak, the photographic products group, stole the limelight at the short end of the yield curve yesterday, though a C$75m three-year bond for Canadian Imperial Bank of Commerce, issued through its Singapore branch, was also seen as reasonably priced.

Eastman Kodak's 9⅝ per cent bond, priced at 101, was led by Merrill Lynch Capital Markets, while CIBC's 9⅝ per cent bond, also priced at 101, was led by the bank's London office. Both bonds were quoted at prices within or around their total fees.

McLeod Young Weir International's C$75m bond for Toronto Dominion Bank (Cayman Islands), priced at 101¼, was expected to be a harder sell since its maturity was seven years. But dealers said investors were well compensated for this by the bond's 10 per cent coupon.

Norddeutsche Landesbank announced an A$70m 4½-year 12¼ per cent bond for its Luxembourg subsidiary, priced at 101⅞.

In the Japanese equity warrants sector, Nomura International announced a long-expected $140m deal for its parent, Nomura Securities. It is accompanied by a $60m Asian tranche which may be traded interchangeably. As had been anticipated, the bond shot to an immediate premium of 12½ points above its par issue price.

Nomura indicated the coupon on the five-year bond at 4⅜ per cent to ensure the success of the sizeable issue. *Coupons on other* equity warrants issues have been fixed as low as 4⅜ per cent recently.

INTERNATIONAL BONDS

Additionally, Nomura Securities tapped the D-Mark market with a DM100m five-year par-priced warrants bond, issued by Nomura Europe. This issue, with a coupon indicated at between 1⅜ and 1⅝ per cent, shot to about 114⅛.

Daiwa Europe led a $150m five-year par-priced equity warrants bond for Fuji Heavy Industries, with an indicated 4⅝ per cent coupon.

Before the UK Budget speech, Eurosterling bonds achieved gains of up to ⅜ percentage point against the background of a firm currency.

Eurodollar bonds were lacklustre as the US Treasury market moved in a narrow range ahead of tomorrow's US January trade data. The D-Mark bond market was also preoccupied with the approach of the US trade data, and both domestic issues and Eurobonds saw thin turnover.

The Bundesbank will announce the terms of a new Federal government bond on Friday, and the expectation of the new supply prompted some profit-taking in domestic bonds yesterday.

Deutsche Bank announced a DM300m 6⅛ per cent 10-year bond for Amsterdam-Rotterdam Bank. The issue was the second subordinated issue for a bank in the D-Mark market in as many days, following a 10-year bond for National Westminster Bank launched on Monday. Amro's bond, priced at 100⅛, was bid at 98 compared with 2¼ per cent fees.

A new DM150m six-year 6⅛ per cent par-priced bond for Banque Nationale d'Algérie was seen as tightly priced. The deal, led by Dresdner Bank, was bid at levels outside its 2¼ per cent fees.

Swiss franc foreign bonds were firmer by about ¼ point amid continued institutional demand.

Crédit Suisse announced a SFr150m bond for India's Oil and Natural Gas Commission in which Union Bank of Switzerland declined to participate, although Swiss Bank Corporation joined the group.

This was the second time this week that a new issue had divided the "big three" Swiss banks. On Monday, Union Bank of Switzerland failed to get the support of the other banks for a bond for Leeds Permanent, the UK building society.

The Oil and Natural Gas Commission's 10-year bond, priced at 100⅛, was bid in the grey market at less 1⅛. Dealers said investors might be attracted by its 5⅜ per cent coupon.

S&P 500 index undergoes radical restructuring

BY JANET BUSH IN NEW YORK

STANDARD & POOR'S, the US credit rating and financial analysis company, has announced a radical restructuring of its S&P 500 index, described as the second most significant change in the index since 1957, when it was created in its current form.

The S&P 500 has become a central tool for fund managers, many of whom have increasingly begun to build portfolios using the index as a benchmark. It is also vital for stock index arbitrageurs, who use the key S&P 500 futures contract on the Chicago Mercantile Exchange and the options contract on the Chicago Board Options Exchange to implement complex trading strategies.

The changes announced yesterday will come into effect on April 6. They will make the composition of the index far more flexible and therefore more closely reflect changing corporate America.

The last big overhaul of the index was in 1976, when it was strictly divided into four categories and was composed of 400 industrial stocks, 40 utilities, 40 financial shares and 20 transportation stocks. When a share dropped out of the index, through merger for example, it had to be replaced by a share in the same sector.

From April 6, that will no longer be the case. For example, if an industrial stock is dropped from the index, it can now be replaced by a utility, a financial or a transportation stock.

Mr Albert Neubert, S&P's manager for index services, said this change would allow the index more properly to reflect the present corporate world, which had changed radically since 1976 through a wave of mergers and acquisitions.

He said the restructuring had been in the pipeline for the past three years, but the actual announcement had been delayed until the market had settled down after the October share price collapse. Other far-reaching changes to the index were in the planning stages and would be implemented within the next one to two years.

As far as the future make-up of the index was concerned, Mr Neubert said that the transportation sector, which had already declined through, for example, the rationalisation of the truck industry and airline mergers, would continue to shrink as a component.

Utilities and financials were likely to gain in prominence while industrial stocks, he judged, were probably already satisfactorily represented in the index.

Saudi flotation attracts only SR1.7m

SAUDI ARABIAN investors placed orders for more than SR1.7m worth of shares on the first day of the kingdom's first public stock flotation for three years, Reuter reports

The orders, placed on Saturday for shares in Taiba Company for Investments and Real Estate Development, were only a fraction of the total SR300m ($80m) on offer, but bankers said interest appeared to be stronger than the volume of orders indicated.

Most orders are expected to be made towards the end of the month-long subscription period.

Taiba, created by royal decree in 1987, will invest in real estate, agriculture, hotels, catering and other service industries.

Tokyo ministry defers pension funds plan

By Stefan Wagstyl in Tokyo

THE JAPANESE Ministry of Health and Welfare (MHW) has postponed plans to break the monopoly of trust funds and life insurance companies over the management of corporate pension funds.

However, the ministry is widely expected to make fresh and more wide-ranging proposals at the end of the year, which could come into effect in April 1989.

The ministry has beaten a retreat in the face of intense opposition from the Ministry of Finance.

The investment advisory companies stand to gain most from the liberalisation of pension fund management. They have argued, however, that the MHW plans were too restrictive.

The MHW had proposed that companies should be allowed to manage up to one-third of their pension funds themselves. But, on the insistence of the existing monopoly holders (the trust banks and life insurers), the ministry said that companies taking this option would be permitted to call on investment advisory companies for advice only; they would not able to delegate management to those advisers.

As a result, investment advisory companies were yesterday pleased that the MHW had withdrawn its proposals. One executive said he thought that a revised plan would almost certainly give advisers the right to offer management as well as advisory services.

The MoF is also delighted that the MHW has pulled back. The MoF had objected to the plan because it was apparently not consulted in advance. The issue is a delicate one for the Finance Ministry because its Banking Bureau, whose responsibilities include trust banks and life companies, looks at the issue differently from the Securities Bureau, which covers, among other things, independent investment advisers.

SES link delayed

A link-up between the Stock Exchange of Singapore (SES) and the National Association of Securities Dealers Automated Quotation (Nasdaq) system in the US, due to have started on Monday, has been postponed for the third time, AP-DJ reports from Singapore.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on March 15

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7½ 92	200	96½	96½	0	0	8.62
All Nippon Air 9⅛ 97	100	†98½	98⅛	0	−0⅛	9.61
American Brands 8⅞ 92	150	99⅞	100⅛	0	+0⅛	8.85
A/S Eksportfinans 7⅛ 93	100	†95½	95⅞	0	+0⅛	8.61
A/S Eksportfinans 7½ 92	150	96⅛	96⅝	+0⅛	−0⅛	8.58
Barc. Bk. Fin. 10⅛ 89	200	†103⅛	103⅝	0	0	7.91
Belgium 9⅛ 92	400	†102	102⅛	0	+0⅛	8.48
British Telecom 7⅝ 96	250	91⅛	91½	−0⅛	−0⅛	9.08
British Telecom 9⅛ 94	150	100⅞	101⅛	0	0	8.70
Canada 9 96	1000	101⅛	101⅝	−0⅛	0	8.71
Canadian P&F 10⅛ 93	100	†105⅞	106⅛	+0⅛	0	9.29
C.C.C.E 7½ 91	113	†96⅞	97	0	+0⅛	8.18
C.N.C.A 7⅛ 91	150	96½	96⅝	−0⅛	0	8.40
Coca-Cola Ent. 8½ 90	100	†101⅞	101⅞	0	+0⅛	7.43
Credit Lyonnais 9 91	200	102	102½	0	0	8.11
Credit National 7⅛ 92	100	96½	97	−0⅛	+0⅛	8.33
Credit National 7⅛ 91	150	96½	97⅛	0	+0⅛	8.23
Denmark 7½ 92	500	95⅛	95⅝	0	0	8.54
Denmark 8½ 91	300	*99⅞	100⅛	0	−0⅛	8.22
E.E.C 7 91	100	96⅛	96⅝	−0⅛	0	8.11
E.E.C. 7½ 93	250	95⅛	95⅝	−0⅛	0	8.42
E.E.C 8⅛ 96	100	†95⅞	96⅛	0	−0⅛	8.96
E.I.B. 7½ 93	100	95⅛	96⅛	0	0	8.52
E.I.B. 9⅛ 97	150	101⅛	102⅛	0	−0⅛	9.05
Finland 7½ 97	200	92⅛	92⅝	0	+0⅛	9.18
Finland 7⅛ 93	200	95⅛	95⅝	−0⅛	−0⅛	8.54
Finn. Exp. Cd. 8½ 92	200	100⅛	100⅝	0	+0⅛	8.35
Ford Motor Cred 11⅛ 90	100	105⅛	106⅛	0	0	7.87
Gen Elec Credit 10½ 00	200	102⅛	103⅛	+0⅛	+0⅛	9.81
G.M.A.C. 8 89	250	100⅛	100⅛	−0⅛	0	7.66
G.M.A.C. 8⅛ 89	200	100½	101	0	+0⅛	7.57
Hoesch 9½ 97	100	—	—	—	—	—
Italy 9 90	1000	102⅛	102⅝	0	0	7.79
Liberty Mutual 8⅛ 96	150	*96⅛	96⅝	0	0	9.13
L.T.C.B of Japan 9 91	100	99½	99⅞	−0⅛	0	8.23
L.T.C.B of Japan 8 97	200	91½	91⅝	−0⅛	0	9.48
Mercedes-Benz Cd. 8½ 95	100	98⅞	99⅛	0	−0⅛	8.69
Metropolis Tokyo 9⅛ 93	200	103½	104	0	+0⅛	8.50
Mitsubishi Fin. 7⅞ 93	100	†95⅛	95⅝	+0⅛	+0⅛	8.92
Mutual America 7⅛ 92	100	†96⅝	97⅛	+0⅛	+0⅛	8.56
Norway 8⅛ 93	500	101	101⅛	0	0	8.43
Pepsico Inc 7½ 93	200	†95⅛	95⅝	−0⅛	+0⅛	8.48
Prudential Crp. 8⅞ 94	125	100⅛	100⅝	−0⅛	−1⅛	8.65
Qantas Airways 10⅛ 95	140	106½	106½	−0⅛	0	9.15
Saab Scania 9½ 91	125	†103⅛	103⅝	0	0	8.05
Saskatchewan 10⅛ 92	100	107⅛	107⅝	0	0	8.44
State Bk S Aust 9½ 93	100	101⅛	102⅛	0	−0⅛	8.76
Swedish Expt.Crd.7⅛ 91	100	†96½	97	0	0	8.28
Swed Exp Cred 10 92	100	105	105⅛	0	−0⅛	8.48
Sweden 7 91	250	96⅞	97⅛	−0⅛	−0⅛	8.02
Sweden 7 92	250	†95⅝	96⅛	+0⅛	+0⅛	8.19
Sweden 8⅛ 96	200	98⅞	99⅛	−0⅛	0	8.95
Sweden 8½ 92	200	†101	101⅛	+0⅛	+0⅛	8.13
Toyota Mtr. Cred. 9 90	200	†102⅛	102⅝	+0⅛	−0⅛	7.98
Victorian Rep 11⅛ 92	150	109⅞	110⅛	+0⅛	+0⅛	8.63
World Bank 7 92	300	†95⅞	96⅛	−0⅛	−0⅛	8.20
World Bank 9 97	300	99⅞	100⅛	+0⅛	+0⅛	8.98
Yasuda Trust Fin 8½ 93	100	98⅛	98⅝	0	−0⅛	8.88

Average price change... On day 0 on week +0

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bk. 6 94	200	102⅛	103⅛	−0⅛	+0⅛	5.45
Avis Fin.SVS 5½ 92	100	†102⅛	103⅛	0	+0⅛	5.03
Bank of Tokyo 5⅛ 93	100	†103⅛	103⅝	0	+0⅛	4.94
Central OK. Turkey 7 92	200	†103⅛	104	0	−0½	6.02
Degussa Int. 6½ 97	200	100⅞	101⅛	0	+0⅛	6.01
E.I.B 5½ 98	150	96⅛	97	−0⅛	0	5.95
E.I.B 6 97	300	100½	101⅛	0	+0⅛	5.87
E.I.B. 6½ 96	300	101⅝	102⅛	−0⅛	+0⅛	5.81
E.I.B. 6⅛ 97	400	100⅛	101⅛	−0⅛	0	5.98
E.I.B. 6½ 95	300	106⅛	107½	−0⅛	+0⅛	5.70
Euro.Coal & Steel 5⅞ 97	175	99⅛	100	0	+0⅛	5.93
Eurofima 6⅛ 96	100	102⅛	103⅛	0	+0½	5.78
Elec De France 5⅞ 97	500	98⅛	99⅛	−0⅛	0	5.91
Forsmark Krtg. 5⅛ 93	200	101⅝	101⅞	+0⅛	+1⅛	4.75
I.A.D.B. 6 97	200	98⅛	99⅛	+0⅛	+0⅛	6.14
IBJ 5⅞ 92	100	†103	103½	0	0	5.06
Japan Finance 5⅛ 97	100	97⅞	98⅛	0	+0⅛	6.01
Ireland 6½ 97	300	†100⅞	101⅛	0	+0⅛	6.33
Korea Dev BK 6⅛ 93	100	102⅞	103⅛	0	+0⅛	5.88
Malaysia 6⅛ 94	150	102⅛	102⅝	+0⅛	+1⅛	5.76
Oesters. Kontbk. 5 93	300	100⅛	101	0	+0⅛	4.82
Portugal 5⅛ 92	150	102⅛	103½	+0⅛	+0⅛	4.95
Portugal 6⅛ 95	150	103⅛	103⅞	+0⅛	+0⅛	6.02
Royal Insurance 5½ 92	300	†101⅛	102⅛	+0⅛	−0⅛	4.98
Statoil 6⅛ 97	200	†100⅛	101	0	−1⅛	6.14
Soc Cent Nuclear 7½ 95	150	105⅛	105⅞	−0⅛	−0⅛	6.28
Tokyo Elec. Power 6 97	300	†99⅛	99½	0	+0⅛	6.09
World BK. 6⅛ 97	600	101⅛	102⅛	−0⅛	−0⅛	5.90

Average price change... On day −0⅛ on week +0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev.Bk. 5⅛ 96	100	†102⅛	103	0	+0⅛	5.21
Asfinag 5 02	150	†100⅛	100½	0	−0⅛	4.96
Bk. Frgn.Econ. Ussr 5 98	100	†100	100½	0	+0⅛	4.97
Bayer W/W 2½ 02	250	†96½	97	−0⅛	−0⅛	2.78
Bayer. Vrsbk.Ov.4⅛ 98	100	†101⅛	101½	+0⅛	0	4.57
Elec.De.France 5 07	100	†101	102	−1	−1	4.88
E.I.B. 4⅛ 97	200	†100⅛	101⅛	+0⅛	−0⅛	4.61
E.I.B 4⅛ 97	200	†100	100½	−0⅛	−0⅛	4.59
Enso-Gutzeit 5 99	100	†100½	101⅛	−0⅛	−0½	4.90
Ireland 5 02	150	†97	97½	−0⅛	−0⅛	5.28
Nippon Sois Kata.4⅛ 93	80	†103	103⅛	0	+0⅛	3.95
Occidentl.Petrol 5⅛ 92	100	†103	103⅛	0	0	4.85
Prov.of Manitoba 4⅛ 02	200	†101	101⅛	−0⅛	−0⅛	4.58
Prudential Fin. 4⅛ 98	200	†101½	102	+0½	+0⅞	4.52
Qantas Airways 4⅛ 97	110	†98½	98⅞	0	0	4.93
SHV Holdings 4⅛ 94	100	†101½	102	−0⅛	−0⅛	4.43
Trans-Can. Pipe 4⅞ 94	100	†101½	101½	+0⅛	−0⅛	4.60
Usfrg. 5½ 96	120	†104	104½	+0½	+1⅛	4.83
Victoria Pub.Atk.5⅛ 03	118	†103⅛	104	+0⅞	+0⅞	5.01
World Bank 5 02	200	†99⅛	100	0	0	5.01

Average price change... On day 0 on week −0⅛

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 5⅛ 92	55	102⅛	102⅛	+0⅛	+0⅛	4.74
Belgium 4⅛ 94	45	97½	98	+0⅛	+0⅛	5.05
Canada 4½ 92	80	99	99⅛	+0⅛	+0⅛	4.60
Elec. De France 5½ 94	20	100⅛	101⅛	0	+0⅛	4.95
Kansai Electric 4½ 94	60	97	97⅛	+0⅛	+0⅛	5.35
Norway 4⅛ 92	60	98⅛	98½	+0⅛	+0⅛	4.69
Rep. of Italy 5⅛ 92	150	104	104⅛	+0⅛	+0⅛	4.58
Sweden 4⅛ 92	50	98⅛	98⅞	0	+0⅛	4.73
World Bank 5½ 92	50	103⅛	103⅛	0	+0⅛	4.58

Average price change... On day +0⅛ on week +0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. BS.10⅛ 93 £	50	101⅛	101½	0	−0⅛	9.90
Alg. Bk. Ned. 5½ 92 FL	150	99½	100	0	0	5.57
Amro Bank 6⅛ 92 FL	150	102½	103⅛	0	0	5.49
Barc. Aust. 14 91 AS	20	103⅛	104⅛	+0⅛	0	12.45
Barc. Bk. 10⅛ 97 £	250	99⅛	100⅛	+0⅛	+0⅛	10.23
British Airways 10 98 £	100	98⅞	99⅛	0	+0⅛	10.18
C.I.B.C.Mort.10⅛ 93 C$	100	†102⅞	103⅛	+0⅛	+0⅛	9.97
Denmark 7⅛ 92 ECU	100	100⅛	101⅛	+0⅛	0	7.43
DG Fin. Co. 13⅛ 90 A$	50	†102½	103⅛	0	−0½	12.18
DG Fin. Co. 14 90 A$	75	†102⅛	103⅛	−0½	0	12.51
DG Finance 14⅛ 92 A$	50	†102⅛	103⅛	−0⅛	−0½	13.27
Deutsche Bank 9⅞ 97 £	75	†100½	101	+0⅛	+0½	9.74
Deutsche Bk.14⅛ 92 A$	100	†106⅛	106⅞	+0⅛	−0⅛	12.09
Dresdner fin.13⅞ 91 A$	100	†105⅛	106⅛	0	+0½	11.48
E.I.S 10⅛ 98 C$	130	†99⅞	100⅛	+0⅛	+0⅛	10.14
E.I.B 8⅛ 93 LF	1000	†102½	103½	0	+1⅛	7.85
Eurotom 7⅛ 97 ECU	145	97	97½	0	+0⅛	7.80
Eurofima 7½ 92 FL	50	105⅛	105⅞	+0⅛	+0⅛	5.92
Eurofima 17½ 89 NZ$	50	†103⅛	104⅛	0	+0½	14.72
Fed.Bus.Dv.Bk.9⅛ 92 C$	75	†101	101½	+0⅛	+0⅛	9.36
Ford Cr.Can.10⅛ 95 C$	100	†102⅛	103⅛	+0⅛	+0⅛	9.91
Gillette Can. 9⅞ 93 £	70	97⅛	98⅛	+0⅛	+0⅛	10.16
G.M.A.C. 9⅛ 92 C$	75	99⅛	99⅞	+0⅛	−0⅛	9.38
G.M.A.C Aus.Fin.14 90 A$	90	103⅛	103⅞	+0⅛	+0⅛	12.16
Halifax BS 10⅛ 97 £	100	100⅛	100⅞	+0⅛	+0⅛	10.33
Heineken NV. 6½ 91 FL	150	†104	104⅛	0	+0⅛	4.83
Hunter Douglas 7 91 FL	50	102⅛	103⅛	0	0	5.94
Imp Chem Inds 10 03 £	100	99	99⅛	0	+0½	10.11
Inv.Industry Int.10 93 £	60	†100½	101	+0⅛	−0⅛	9.80
Leeds B.S 10½ 91 £	50	101⅛	101⅛	+0⅛	+0⅛	9.94
Nat.Australia 14 92 A$	50	104⅛	104⅛	+0⅛	0	−0.85
Nat. West. Bk.13⅛ 92 A$	50	†103⅛	103⅞	+0⅛	−0⅛	12.06
Nationwide BS 10⅛ 93 £	75	100⅞	101⅛	+0⅛	−0⅛	9.89
Ned.Gasunie 6⅛ 90 FL	75	103⅛	104½	0	+0⅛	5.24
Ned.Midd.Bank 6 92 FL	150	100⅛	101⅛	0	0	5.68
New Zealand 7⅛ 93 ECU	200	100½	101	+0⅛	+0⅛	7.56
Oesters.Ktbk.13⅞ 94 A$	75	105⅛	106⅛	0	+0⅛	12.18
Prudential Fin.9⅞ 07 £	150	92⅛	92⅞	+0⅛	+0⅞	10.27
Rank Xerox Fn.8 90 FL	100	102⅛	103⅛	0	0	6.49
Rank Xerox Fn.8⅛ 89 FL	75	102⅛	103	−0⅛	0	5.91
S.O.R. 7⅛ 95 ECU	90	100⅛	100⅞	0	−0⅛	7.68
World Bank 7⅛ 89 FL	100	103⅛	104½	0	0	5.08
World Bank 7½ 90 FL	150	104⅛	104⅞	+0⅛	+0⅛	5.23
World Bank 5⅛ 92 FL	100	101	101⅛	+0⅛	0	5.36
World Bank 13⅛ 92 A$	100	†103⅛	104⅛	+0⅛	−0⅛	12.05

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alberta 5 93	†.0312	100.24	100.34	13/06	8.17
Alliance & Leic.Bld 94 £	.08	99.22	99.27	21/04	9.02
Belgium 91	0	100.18	100.28	22/08	7
Britannia 5 93 £	0⅛	99.74	99.79	8/04	9⅛
Chase Manhattan Corp 91	†0⅛	99.15	99.40	22/08	6.94
Citicorp 98	*0⅛	96.12	96.12	31/03	6.83
EEC 3 92 DM	*0	100.28	100.28	22/08	3.56
Halifax BS 94 £	.1	99.72	99.77	9/05	9.6
Invt. in Industry 94 £	0	99.50	99.59	24/05	9.44
Leeds Perm. B/S. 94 £	0⅛	99.86	99.91	13/04	9.12
Midland Bank 01 £	†.1	95.00	96.00	11/05	9.41
Milk Mkt.Brd. 5 93 £	0⅛	99.61	99.66	30/03	9
New Zealand 5 97 £	.07	99.59	99.70	18/05	9.44
New Zealand 5 01	0	99.13	99.23	4/08	6.98
Shearson Lehman Hlds 91	*0⅛	99.25	99.25	9/05	6.94
United Kingdom 5 92	0	100.06	100.13	7/04	7.12
Woodside Fin. 5½ 97	†0	99.05	99.15	28/04	7.13
Woolwich 5 95 £	0⅛	99.48	99.54	19/05	9⅛

Average price change... On day +0.01 on week −0.02

CONVERTIBLE BONDS	Cnv. date	Cnv price	Bid	Offer	Chg. day	Prem
Alcoa 6⅛ 02	8/87	62.	97½	98⅛	+0⅛	33.93
Alco Health 6⅛ 01	†7/86	26.25	84½	85½	+0⅛	26.56
American Brands 7½ 02	9/87	56.7	100½	101⅛	+0⅛	25.86
American Can Co. 5½ 02	4/87	66.75	66⅞	67⅞	−0⅛	50.51
Ashikaga Bank 2⅛ 02	4/87	967.	142⅛	144½	+1⅛	1.50
Asics 5 92 DM	12/83	430.6	154⅛	157⅛	0	−3.59
CBS, Inc. 5 02	4/87	200.	94⅛	95⅛	+0½	15.81
Fuji Hvy Inds 5 00	8/85	676.	172	173⅛	+1⅞	−0.11
Fujitsu 5 99	5/84	1106.	237⅛	238⅛	+5⅛	−0.49
Gunma Bank 2⅛ 02	4/87	808.	173⅛	174⅛	+3⅞	1.80
Land Secs. 6⅛ 02 £	6/87	6.72	95⅛	96⅛	+0⅛	25.84
MCA INC 5⅛ 02 US	9/87	69.62	83⅛	84½	−0⅛	29.58
Minolta Camera 2⅛ 94DM	2/86	1004.	94⅛	95⅞	+0⅛	31.68
Mitsui trust 2⅛ 01	10/86	1903.	152⅛	153⅞	+2⅛	0.61
Next PLC 5⅛ 03 £	11/87	4.3	102⅞	103⅞	+0⅛	55.97
Nishi Nipp.Bk.2⅞ 03US	4/88	804.	109⅛	110⅞	+0½	−2.05
Onoda Tatsiel 2⅛ 02	4/87	1310.	201⅛	202⅛	+4⅛	−0.59
Ranks Hovis 4⅛ 05 £	1/88	3.5	108	109	−0⅛	17.93
Redland 7⅛ 02 £	1/87	5.4	97	98	+0⅛	24.47
Texas Inst. 2⅛ 02 US	9/87	82.87	83⅛	84⅛	+0⅛	28.63
W.R. Grace 6⅛ 02 US	9/87	42.12	85⅛	86⅛	+0⅛	35.63

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK COMPANY NEWS

Troubled Corah falls £1.7m into the red

BY ALICE RAWSTHORN

Corah, the Leicester-based knitwear manufacturer which is one of the larger suppliers to Marks and Spencer, yesterday announced that it had sustained a pre-tax loss of £1.7m in 1987, compared with profits of £2.3m in the previous year.

The group saw a slight increase in sales to £96m (£94m) in 1987, but operating profits fell to £2.2m (£4.8m). The cost incurred in selling surplus stocks is expressed as an exceptional charge of £1.8m. The group sustained a loss per share of 4.7p (earnings of 4.6p) and the board decided to waive the final dividend.

Corah has had a troubled time in recent years. Its present problems began in 1984 with the takeover of Reliance, a fellow M and S clothing supplier. The reorganisation of Reliance is now completed. But in 1987 Corah suffered from the parallel problems of lacklustre retail demand in some areas and from production problems caused by a strike at its Ashton plant.

The underwear business was disrupted by the Ashton strike, which cost £700,000, and sales were static. Similarly the knitwear subsidiary suffered from poor demand and incurred a loss for the year. The high performance textiles business faced "unacceptable losses" due to supply problems. By contrast outerwear fared well, as did curtains.

In 1987 Corah undertook a thorough review of all its operations. It has since implemented a cost-cutting programme to save £1.5m a year, revised its divisional structure and introduced a new management team. Two weeks ago Mr John Foulkes joined the group as chief executive from Ross Youngs, the Hanson food subsidiary currently up for sale.

Mr Nicholas Corah, chairman, said there would be further restructuring within the business. He expressed "cautious optimism" about the prospects for the present year. He said that, after a slow start, the pace of trading was improving in the approach to Easter.

● comment

This time last year Corah could tell a cautiously cheery tale of putting Reliance's problems behind it and a mildly more clement trading climate. The strike at Ashton and sluggish High Street sales swiftly scuppered those hopes. Corah was at least sensible enough to forewarn the City. Only the most optimistic of investors could have hoped for a final dividend. And these results were no better or worse than expected. Barring calamity, Corah should come back to the black this year. But it would be foolish to indulge in forecast for a company in such a state. Clearly there is lots of scope for the new management to improve efficiency. But Corah's fundamental problems – its reliance on import-prone and price sensitive product areas – will be desperately difficult to resolve. Given that Corah is in no position to diversify, the likeliest solution is a takeover. But the company has now been "for sale" for a year or more, and there is no sign of a buyer.

Caird buys into Leigh Interests

BY FIONA THOMPSON

A Caird & Sons, an acquisitive waste disposal and property group, has purchased 1.06m shares in Leigh Interests, a waste disposal contractor, giving it a 5.47 per cent stake in Leigh.

Since last December Caird has bought seven small waste disposal companies, paying a total £3.47m for them.

Mr Peter Linacre, Caird's chairman, said yesterday the Leigh stake was purely a trade investment and Caird had no intention, at this stage, of launching a bid for Leigh. "We want to be part of the key company in the waste disposal sector."

However, he did say that while the bulk of Caird's interests at present were in property, he saw the future of the company in the waste disposal business.

Caird paid £1.1m for 565,000 Leigh shares in the market. The remaining 500,000 shares it acquired by purchasing William Campbell Investments in Guernsey for £1.35m. The Leigh shares were William Campbell's principal asset.

"We see waste disposal as a fast growing market," said Mr Linacre, especially in the light of increased legislation on disposals and the environment. "The 1974 Control of Pollution Act is just the first attempt to legislate. And some local authorities, which are required to produce waste disposal plans, have not yet done so."

Caird reported pre-tax profits of £466,280 for the six months to December 31, but £406,942 of operating profit came from property disposals.

Leigh Interests more than doubled interim profits to £1.79m for the six months to September 30, 1987.

Renaissance at £0.37m: eyes on recovery stocks

BY DOMINIQUE JACKSON

Renaissance Holdings, an industrial investment company, has returned pre-tax profits of £367,000 on turnover of £639,000 for the nine months to December 31 1987.

The figures were the first from Renaissance which was incorporated in October 1986 and joined the main market in a placing worth £6m in March 1987.

Mr Nicholas Branch, chairman, said the current year had started well for Renaissance which aims to take stakes of between 20 to 40 per cent in recovery stocks in the manufacturing sector.

After taxation of £125,000, earnings per share were 3.37p. A dividend of 3.03p was recommended.

Mr Branch said investment conditions and deal flow had improved since October last year and negotiations had already commenced to acquire a complete venture fund portfolio.

He added that the stock market crash of October had had a minimal effect on net assets per share which were calculated at 95.34p at end-December.

All of Renaissance's investments are minority holdings which are likely to be realisable within three years. A total of seven investments were made at a cost of £2.72m of which £1m was financed by vendor placements.

Around 45 per cent of the total invested is in the form of securities with a yield, particularly convertible loan stock and convertible preference shares.

Mr Branch said the company was seeking a suitable candidate for the post of non-executive chairman. Once the appointment is made, Mr Branch will devote more time to investment activities.

Hibernian ahead

Hibernian Group, Dublin-based insurer, raised pre-tax profits from I£7.65m to I£10.76m (£9.35m) in 1987. Underwriting loss was cut to I£12.36m (I£12.94m).

Earnings per share were 10.8p (8.4p) and a final dividend of 2.6p makes a total of 3.9p (3.6p).

GrandMet makes £7m offer for Whitegate

By David Waller

First Leisure Corporation has received a £7.4m cash offer for its chain of Whitegate steak-houses from Grand Metropolitan, the brewing and hotels conglomerate.

This compares with the £6.4m offer received from a start-up company, Whitegate Leisure. Accordingly, FLC is withdrawing its recommendation of that deal and urging shareholders to favour the GrandMet offer, which it calculates is worth 14.4 per cent more.

At FLC's annual meeting yesterday, Lord Delfont – speaking on his last day as chairman – said current trading was "very buoyant" and results for the first four months were comfortably above the previous year.

Lord Delfont will become president and remain a director. The chair will be taken by Mr Michael Cottrell.

MS dismisses Dobson charges

MS International, facing a £33m hostile takeover offer from Dobson Park Industries, has dismissed the bidder's allegations about its profits and earnings forecasts as having no substance.

In a letter to shareholders, Mr Michael Bell, MS chairman, said: "Profits on property sales have not been included and the pension fund holiday, now in its third year, is set to continue for the foreseeable future. Indeed Dobson Park itself has also taken a similar holiday."

Low Nigerian sales hit profits at Paterson Zochonis

BY ANDREW HILL

Paterson Zochonis, West African trader and manufacturer of toiletries and detergents, reported pre-tax profits down 27 per cent to £11.9m for the six months to November 30 1987, against £16.3m.

The group blamed the drop, which was in line with its expectations, on the continuing low level of demand in Nigeria, where deflationary policies have reduced consumer spending. Generally depressed conditions in the rest of French-speaking West Africa also affected the results.

Turnover decreased from £103m to £94m and operating profits almost halved to £5.76m (£11m). Pre-tax profits for the half-year were supported by an increase in investment income, from £5.25m to £7.07m. Paterson has about 90 per cent of its investments in gilts and bonds.

The tax rate was slightly reduced from 39.5 per cent to 34.5 per cent but earnings per share dipped 22 per cent to 15.54p (19.96p). There is an interim dividend of 1.85p (1.75p).

Although Paterson detected a slight easing in Nigerian monetary policy, in the absence of major currency fluctuations, second half profits were expected to be broadly similar to those announced yesterday.

Mr Alan Whittaker, finance director, said: "All of us at PZ are very committed to Nigeria. We all believe it's going to come back: it may take several years, but with oil and a market of 100m people, we think we can make money there."

Cussons, the soaps, toiletries and detergent manufacturer, continued to make progressin the UK, Australia and Kenya, though some other markets were dull. The company has bought a small soap factory in Indonesia to extend Cussons' Far East operations.

● comment

About 35 per cent of Paterson's profits ara generated in West Africa, 25 per cent in Nigeria itself. With 15 or so subsidiaries on the African continent, manufacturing products as diverse as fridges and throat lozenges, the group will be well-positioned if the region shakes off its economic disarray, but it needs more than long-term potential if it is to improve its lowly rating. Complementary acquisitions, in specialist consumer products or speciality chemicals, say, could liven up the results, but Paterson refuses to bend to City pressures and, although the group is supported by Cussons' progress and a strong gilt-edged balance sheet, direct investment in gilts and bonds promises more reliabla returns than a stake in Paterson. The family holds 64 per cent of the shares and the market in them is tight: with pre-tax profits of £24m or £25m forecast for this year, investors are not exactly rushing to snap up the available stock on a prospectiva p/e of about 9.

Merchants Trust asset value falls

Net asset value at the Merchants Trust was slightly lower at 171.24p in tha year to January 31 1988 against 172.88p a year earlier.

Earnings per share improved however, from 4.62p to 5.41p, and the total dividend is up 1.1p to 5.4p net with a higher final of 2.88p against 2.4p.

COMPANY NEWS IN BRIEF

AIM GROUP has bought from the receiver for cash various fixed and trading assets of Transequip, manufacturer of air cargo equipment.

AVESCO has bought the business of System Video, specialist in the manufacture and marketing of test equipment for the TV and video industries. Initial consideration is £250,000 cash and there could be further consideration with a maximum of £1.5m.

HATFIELD ESTATES has paid more than £5m for the last "greenfield" industrial site in Welwyn Garden City, Herts. It will be developed for light industrial, storage and distribution use.

HILLE ERGONOM is selling its 40,000 sq ft freehold warehouse in Brentford to Rademon Developments for £1.2m cash. It will be granted a leaseback of part of the premises until the end of 1988. Sale proceeds will reduce borrowings and finance development of new furniture products.

KODE INTERNATIONAL, the computer systems company, has acquired the SK group for £2.2m cash. The three companies, which are active in computer maintenance, rentals and systems, made combined pre-interest profits of £338,000 last year. The book value of the assets is £917,000.

MY HOLDINGS has acquired Bluebell Packaging of Scunthorpe for £160,000. It makes corrugated cartons.

ROBINSON BROS (Rydars Green), maker of organic chemicals, made turnover of £19.16m (£19.79m) and profit £1.08m (£1.08m) for year ended January 2 1988. Tax £341,000 (£339,000). Dividend 7p (same).

SAVE & PROSPER Gold Fund incurred net deficit of £146,000 (£30,000) for year ended January 31 1988. Dividend and deposit account interest came to £277,000 (£97,000).

TSL GROUP - Quartz and Silica and persons acting in concert own or have acceptances in respect of 8.52m ordinary shares, or 90.1 per cent. Offer unconditional in all respects and outstanding balance will be acquired compulsorily.

WOOLWORTH HOLDINGS offer for Share Drug Stores has become unconditional in all respects. By 3pm on March 11, valid acceptances had been received in respect of 7.25m shares (69.09 per cent). These included acceptances in respect of 6.88m shares (65.49 per cent) held by certain Share Drug holders, including Mr A.C. Prince, chairman.

3i supporting West Yorkshire Hospital fight

By Dominique Jackson

Investors in Industry (3i), the venture capital group owned by the Bank of England and the clearing banks, announced yesterday it was supporting the existing board of West Yorkshire Independent Hospital which is fighting a contested £6.6m bid from a major shareholder.

3i said it had exercised warrants to subscribe to 2.3 per cent of the enlarged capital of USM-quoted West Yorkshire, comprising 4.34m ordinary shares.

Community Hospitals, which is the largest shareholder in West Yorkshire, with 46.9 per cent of tha equity, launched a hostile £6.6m bid last week.

Whitbread/Marston

Whitbread, brewer and retailer, has increased its stake in Marston, Thompson & Evershed, the Burton-on-Trent brewer to 5.2 per cent. Whitbread said it had exercised options to buy 500,000 shares and now had 4.4m shares in Marston.

VG spends $65m on US expansion

BY CLAY HARRIS

VG Instruments, the scientific instrument maker, yesterday agreed to pay $65m (£36m) for Kevex, a Californian group which had rebuffed another British company, UEI, only on Monday.

VG announced its $13-per-share offer, which has been irrevocably accepted by directors owning 30 per cent of Kevex's shares, several *hours after UEI withdrew a* $10.5 tender offer – which it had been willing to raise to $12 – in the face of continued opposition from Kevex.

Kevex is a leading US manufacturer of analytical spectrometry systems and related products used in materials analysis.

The proposed acquisition would broaden VG's activities in surface science analysis, a sector in which Kevex claims 80 per cent of the US market, and introduce x-ray fluorescence techniques into the UK group.

It would also give VG its first US manufacturing base and enhance its North American sales force. Kevex will gain access not only to VG's research and development resources but also to its international sales network.

The acquisition is not expected to lead to any job losses, Mr Barry Mulady, a VG director, said yesterday.

In its most recent six-month period to January 31, Kevex achieved operating profits of $1.9m and net income of $1.1m on sales of $20m.

Both volume and margins were steadily improving, Mr Mulady said, although VG intended to improve Kevex's pre-tax margins to the group target of 20 per cent.

VG made an initial approach to Kevex late last year, but backed off when it was rebuffed. "It's not the group's nature to press hostile bids," Mr Mulady said.

VG resumed its contact with Kevex about two weeks ago after UEI launched its unsolicited tender offer.

Mr Peter Michael, UEI chairman, said yesterday he was happy with the outcome. "It will not affect our business at all, not in the least," he said.

UEI had set itself a limit for what it was willing to pay, $12 a share, and accepted with grace the Kevex board's decision to *hold out for a higher offer.*

VG's cash bid will be funded from existing resources and loan facilities. BAT Industries, which owns 69 per cent of VG's shares, has indicated it will vote in favour of the acquisition. VG was advised by S.G. Warburg, the merchant bank.

Bernard Eastwell, chairman and founder of VG.

Senior buying Foster Wheeler boiler side

By Dominique Jackson

Senior Engineering Group said yesterday it was in an advanced stage of negotiations with Foster Wheeler Power Products for the purchase of Foster Wheeler's industrial boiler operations.

Mr Don McFarlane, Senior's managing director, *said the company* would not be acquiring Foster Wheeler's nuclear business or factory.

Financial details of the acquisition were not immediately available but Mr McFarlane said these would be published upon completion of the deal which he hoped would be by March 29 1988.

Senior plans to continue the business substantially as now conducted using the name of Foster Wheeler Power Products for a period of up to five years.

The US parent company, Fos*ter Wheeler Energy Corp of New* Jersey, has agreed to extend a license and technical service agreement to Senior, giving the company access to all relevant technical and territorial rights currently available to Foster Wheeler Power Products.

Zurich reverses into Ecobric

BY PHILIP COGGAN

THE REVERSE takeover of Ecobric by property developer Zurich Group, abandoned in the wake of the crash, is now to go ahead.

Ecobric, a USM-quoted demolition company, is *to issue 222m* shares to acquire Zurich, giving the property company over 80 per cent of the enlarged equity. Based on a nominal share price of 30p, the deal values Zurich at around £67m. The payments may increase to £71m, when Zurich completes certain acquisitions.

Under the earlier deal, arranged last August, Ecobric planned to issue 70m shares as consideration for the purchase. But by the time Zurich had received a report from Spicer & Pegler on Ecobric's finances, Black Monday occurred and the *deal fell through.*

However according to Mr Ronnie Aitken, Ecobric's chairman, "the deal was never totally off" and the two parties resumed talks three to four weeks ago. The alteration in the number of shares that Ecobric has had to issue to buy Zurich reflects the change in the relative values of the two companies, Mr Aitken said.

Ecobric says it is satisifed that the underlying business of Zurich has not been affected by recent changes in the property market and that therefore the merger *presents attractive opportunities* for the expansion of Ecobric in the property and industrial sectors of the market.

Zurich made pre-tax profits of £853,000 in the year to April 30, 1987 and the directors of Zurich forecast pre-tax profits of not less than £4.25m for the year to April 30, 1988 and that the group's consolidated net assets will be not less than £6m. Mr Malcolm Wright and Mr Martin Robinson, two accountants who founded Zurich, will join the Ecobric board.

Ecobric's shares were suspended yesterday at 39p; when the deal is completed, Ecobric will apply for readmission to tha Unlisted Securities Market.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding div	Total for year	Total last year
Corah	fin	nil	–	2.4	1.6	4
Merchants Tst	*fin*	2.88	*May 18*	2.4	5.4	4.5
Paterson Zoch	int	1.85	May 5	1.75	–	7.1
Renaissance	fin	3.03	June 1	-	3.03☆	-
Thorpe (FW)	int	2.2	May 19	2	-	5.1

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♦Third market.☆For 9 months to end-December.

Kalon shake-up in view of expected losses

By Clay Harris

Kalon Group, the paint and chemicals group, said yesterday it would report a pre-tax loss for 1987, against a £4.92m profit in 1986. The results are due to be announced in mid-April.

It also said that several noncore businesses and joint ventures would *shortly* be *sold. This* would substantially reduce borrowings and concentrate on three divisions: decorative paint, chemicals and industrial coatings.

Kalon said 1987 results were affected adversely by stock control and recording problems, additional bad debt provisions and pressure on margins caused by rising raw material costs throughout the year.

The effect of high borrowings was underlined by the fact that it was interest changes which pulled the pre-tax result into deficit.

After recently announced senior management changes, all group trading activities, management structures and financial controls and systems, particularly those for stocks and costing, had been rigorously reviewed, Kalon said.

Whitbread sale

Whitbread is to sell Elsenham Quality Foods, producer of jams and gift foods, to *J.M. Smucker* Company of Ohio.

Suter owns 28% stake in Newman: not drawn about bid

By Michael Smith

Suter, the industrial conglomerate, yesterday emerged as the buyer of a 20.47 per cent stake in fastenings company Newman Industries.

Its purchase from the Australian undertaking, Winterbottom Holdings, takes its holding to 28.05 per cent and *puts it in a strong position if it* decided to launch a bid.

Mr David Abell, Suter chairman, would not be drawn on whether he planned to make a full bid. An immediate move is impossible; Suter shareholders would have to approve an offer because of the size of Newman, relative to Suter.

Mr Abell clinched the £14.3m purchase of the 26m shares in Newman earlier this week after 10 days of talks in Sydney, where Winterbottom is based.

He has long had his eyes on Newman and last May made an offer for the shares which he has now acquired. At that time he offered 57p in cash, or 61p in shares, but the price he paid Winterbottom was 55p.

Mr John Marley, Newman chief executive, said his company had become used to living with a large shareholder. "Now we have Suter instead of Winterbottom. I am relaxed about the situation."

Any bid is likely to face Mr Marley's opposition. "My objective is to get our multiple to a level where no-one can afford to make a bid," he said.

Mr John Shepherd, Winter*bottom chairman, said* his company had decided to focus on its Australian interests following a sharp fall in its share price after the stock markets crash.

"Newman is an extremely well run company," he said. "It has good prospects and we would have preferred to stay in there."

Suter also has stakes in metals and plastics companies Amari (23 per cent) and Metal Closures (24 per cent). Should *it decide to go for Newman, it would be unlikely to relinquish its interest in Amari but it may consider disposing of its Metal Closures shares to* help finance any deal.

Analysts said that Suter would be unlikely to make a bid for Newman in paper because of the recent depression in the price of its shares.

Suter also announced yesterday the completion of its disposal programme in South Africa following the acquisition of Mitchell Cotts last year. Kobar Mining, a wholly owned coal mining subsidiary, has been sold to a management-led consortium for £1m.

Stake in Alida raised

Singer and Friedlander Group, the investment and property dealing company, has raised its stake in Alida Holdings, manufacturer and supplier of flexible packaging, from 13.54 per cent to 18.96 per cent.

Singer and Friedlander holds the shares through its subsidiary, Sinjul Investments, and says the purchase has been made in order to increase the group's long-term investment in Alida.

Menzies pays £35m for 66 larger Martin outlets

BY FIONA THOMPSON

John Menzies, wholesale newsagent and retail stores group, is to buy 66 of the larger stores in the Martin chain of newsagents for £35m.

"The acquisition is important to us both strategically and commercially," said Mr Ranald Noel-Paton, managing director of Menzies. "The 66 larger stores we are buying are mainly in the Midlands and the south east, where John Menzies is least well represented.

"The package makes such a good fit with our existing chain and effectively doubles our retail space in England."

Mr Peter Wenzel, chairman of the Martin Retail Group, said the group was selling the shops "because they do not fit in with the community retailing concept we are developing. We are concentrating on the smaller, tradi*tional confectionery,* tobacco and newsagent shops".

Menzies has 290 shops at present, about half the bookstall type found on station platforms and half larger stores selling books, toys, records, and video tapes as well as newspapers, magazines, tobacco and confectionery.

The 66 Martin stores are all similar to Menzies larger shops. Each is more than 3,000 sq ft, the largest is 14,000 sq ft. Menzies will finance the £35m purchase price out of cash resources and bank borrowings.

The Martin staff employed in *the 66 stores* will all keep their jobs, Menzies said yesterday.

Martin Retail Group put the stores up for sale last month. The group, with a 1030-strong chain of confectionery, tobacco and newsagent shops, was bought by an Australian consortium last September for £202m cash from Guinness, drinks group. Tha consortium, in which Mr Rupert *Murdoch's News International* has a 33⅓ per cent stake, is led by Panfida, New South Wales investment company.

NatWest joint venture buys Banco de Asturias

BY PETER BRUCE IN MADRID

Banco NatWest-March, the Spanish mainland joint venture between the National Westminster Bank and the Spanish March group, said yesterday it was buying 84 per cent of Banco de Asturias, an important regional bank in the north of Spain.

The stake in Banco de Asturias, a retailer with 63 branches, is currently held by the March group and is to be paid for in NatWest-March shares. It was not clear yesterday how much the *purchase would cost or by how* much, if at all, the NatWest stake in the joint venture would be reduced.

NatWest and the March group currently each have 49.3 per cent in Banco NatWest-March. Unconfirmed speculation in Madrid yesterday was that both holdings would be reduced to around 47 per cent with the remainder being shared between two March group executives in Banco NatWest-March, Mr Alfredo Lafita, the chief exective, and Mr Enrique Pinel, the bank's secretary.

The purchase is subject to Governmental approval but it is not thought to be in any danger. The Spanish Government is trying hard to encourage concentration in the country's very fractured banking sector before the opening of the European market in 1992.

Banco Astrurias' 63 branches will add to Banco NatWest-March's 95-strong network, centered chiefly around Madrid. The regional bank has recently been 'sanitised' by the March group and produced profits last year of Pta 624m on assets of Pta 60bn. Banco NatWest-March had profits of Pta 1.4bn last year. Its assets total Pta 125bn.

Yearlings lower

The interest rate for this week's issue of local authority bonds is 9⅜ per cent, down ¼ of a percentage point from last week, and compares with 9¾ per cent a year ago. The bonds are issued at par and are redeemable on March 22 1989.

More pressure on IBC over Barham cash terms

BY CLAY HARRIS

THE 18 largest shareholders still on the register at Barham Group, the publishing and advertising company taken over last year by International Business Communications (Holdings), are being asked this week to finance a potential legal challenge to IBC's refusal to re-open the cash terms of the bid.

At stake is potential additional cash payments of £5m by IBC, a specialist publications and conferences group.

Mr Peter Land, a director of Parrish Investment Management, is canvassing support for an action under Section 430A of the 1985 Companies Act, as amended by the 1986 Financial Services Act.

IBC maintains that this provision, which allows the final 10 per cent of a target company's shareholders to accept any terms which were available during the bid, does not apply in its case because of the particular structure of the offer.

The latest Barham share register supplied to Mr Land, dated March 8, indicated that 1.75m ordinary shares (about 6 per cent of the pre-bid total) and 1.4m preference shares (9 per cent) had not yet been committed to the offer, which was declared unconditional on October 2.

Although 227 separate shareholders are involved, Mr Land, representing several of the smaller ones, is seeking the financial support only of those which stand to gain at least £10,000 each if IBC is obliged to re-open the cash offer.

The disputed all-cash offer is worth 51p more for ordinary shares and 35p more for preference shares than the respective shares-and-cash terms still open.

In a letter this week, Mr Land suggests that estimated legal costs of £50,000 would break down to only 2.5p per ordinary share and 1.3p per preference share.

"This must be a fair bet provided legal advice is clear enough," Mr Land commented.

Although smaller shareholders would stand to gain from a successful decision, they were not being asked to contribute to legal costs.

Mr Land is seeking a commitment in principle by March 31, after which the decision would be taken to seek formal legal advice, based on whicb legal action might be instituted.

If IBC was obliged to re-open the offer, and the share register is up to date, it would face paying out up to £5m more in cash than it now expects, although it would also be issuing fewer shares.

Consortium victory claim in OIS battle

By Steven Butler

A CONSORTIUM headed by Mr Paul Bristol yesterday claimed victory in its hostile bid for Oilfield Inspections Services, the non-destructive testing and inspection company.

It said it had purchased a further 297,534 OIS shares on Monday, raising its stake to 53.09 per cent.

This consists of 50.1 per cent which the consortium owns or has contracted to purchase, with the balance accounted for by acceptances to the 63p-per-share offer. The offer, which values the company at £4.5m, cannot be declared unconditional until validation of certain of the share purchases.

The consortium is comprised of Mr Bristol, Brompton Holdings, which is controlled by Mr Bristol, and Shaikh Amin Al-Dahlawi.

It has said it would limit its holding in the company to 51 per cent and would support the current management at OIS, although Mr Bristol would join the board in an executive capacity.

The OIS board, with the exception of two dissident directors, strongly opposed the bid and has questioned Mr Bristol's abilities to lead the company.

Further progress in the transformation of Sumrie

THE transformation of Sumrie Clothes, Leeds textile manufacturer, into a technically-oriented international education and training company has made further progress. An extraordinary general meeting agreed to change its name to Summer International and an acquisition is being made.

For a maximum £6m the company is buying Impact Communications. There will be an initial payment of £600,000, of which £400,000 will be satisfied by shares. Further profit-related payments will all be met by the issue of shares.

Impact is involved in the production of interactive video for training and education and the development of computer animation technology. It began trading in March last year and no audited figures have yet been produced.

The move follows the recent acquisition of Betty Owen Enterprises, US secretarial school operator. Summer is also in advanced negotiations with a UK company in the education field.

Smidth offer terms for Anglo Nordic

FL Smidth & Co, the Danish engineering group, announced the terms of its recommended offer to buy out minority holders in Anglo Nordic Holdings, its loss-making quoted UK subsidiary.

It also revealed that at the end of December Anglo Nordic's borrowings had exceeded share capital and reserves five times – compared to three times permitted by the company's articles.

Net assets at December 31 totalled £3.2m, compared to borrowings of £17.1m.

FL Smidth, which owns 75.2 per cent of Anglo Nordic, is offering 25p cash per ordinary, 180p for cumulative share, and 100p for £1 nominal of convertible loan stocks.

Christy Hunt sale

Christy Hunt is selling the Hiram Wild division of Walter Lawrence Manufacturing to its management, for £700,000 cash and £350,000 in secured loan notes. A further £370,000 is being paid for Wild's Sheffield premises.

Thorpe ahead at midterm

F.W. Thorpe, maker of Thorlux lighting equipment, lifted its turnover from £3.79m to £4.59m and pre-tax profit from £674,000 to £726,000 in the half year ended December 31 1987.

The directors said the order book remained buoyant and they would expect the level of output for the second half to be similar to the first.

Thorpe was able to maintain the higher production level achieved in the second half of last year, but further growth was restricted by capacity restraints.

Earnings worked through at 15.4p (14.3p) per 10p share and the interim dividend is raised to 2.2p (2p).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Armitage Brothers, Close Brothers, Impala Platinum, Pochin's, Sirdar,
Finals- Admiral Computing, DRG, Jaguar, Reneen, United Biscuits, World of Leather.

FUTURE DATES

Interims-

Bankers Investment Trust	Mar 23
Burton	Mar 22
Fisoasch	May 16
G.C. Floorings	Mar 22
Magnetic Materials	Mar 25
Realty Useful	Mar 25
Savage	Mar 18
TSW Television South West	Mar 17

Finals-

Aquascutum	Apr 8
Aurora	Mar 23
Barra Industries	Mar 24
Beauford Group	Mar 25
Bisson & Batterman	
Emerald	Mar 22
Booker	Mar 21
Campari International	Mar 23
Catalyst Communications	Mar 24
Central Independent TV	Mar 24
Cliffords Dairies	Mar 28
Cundell	Mar 23
Dean & Bowes	Mar 24
Delaney	Mar 23
EIS Group	Apr 18
Falcon Industries	Mar 22
Garton Engineering	Mar 21
Ipeco Holdings	Mar 28
Jacobs (John I.)	Mar 28
London & Edinburgh Trust	Mar 24
Lyon & Lyon	Mar 17
Martin Currie Pacific Tst.	Mar 24
Miller (Stanley)	Mar 22
Newman Industries	Apr 8
North Sea and General	Mar 23
TV-am	Mar 24
Tyzack Turner	Mar 18
Wolstenholme Rink	Mar 22

APPOINTMENTS

Project director for Tarmac Group

TARMAC's plans for the £200m Deeside Waterfront centre have taken a step forward with the appointment of a project director. Mr Alan Mitchell will control the project from concept to completion of construction. He was with the Manchester-based Willan Group as director and general manager, construction, and prior to that had been managing director, north west operations, for the Lovell Group. The Deeside venture is a partnership of Tarmac Construction, Clwyd County COuncil, Alyn and Deeside District Council, and the Welsh Development Agency. The plan is to take 265 acres of derelict land - once part of the Shotton steel works - and create a leisure and shopping centre, together with homes, and business and industrial parks.

★

GUINNESS MAHON HOLDINGS, (GMH) holding company for the UK investment banking activities of the Guinness Peat Group, (GPG) has formed a new board: Mr Geoffrey Bell, chairman of Guinness Mahon & Co., becomes chairman; Mr Grant Adams, chairman of Capital International, Hong Kong, and deputy chairman of Equiticorp Holdings, New Zealand, is made deputy chairman. Joining the board are: Mr Alan Clements, finance director of ICI; Mr Ian Dinwiddie, is appointed finance director of GMH, he was finance director of Arbuthnot Latham Bank; Mr Michael Henderson, group chief executive, Cookson Group; Mr Peter Hunt, managing director of Capitalcorp International; Mr *Eugenio Mendoza, president of* the co-ordinating council and corporate management committee of Mendoza Enterprises, Venezuela; Mr John Wedgwood, company secretary of GPG. Lord Kissin of Camden becomes president of GMH, and Lord Goodman has *been retained as an adviser to the* board.

★

J.H. MINET & CO. has appointed Mr Charles Ross as a divisional director of the North American marine division.

★

BINNS CORNWALL has appointed Mr Barrington Lloyd as senior executive and director. He joins from Plessey Company.

★

Mr Peter C. Hicks has resigned as managing director of Ariel *(U.K.) and joined the institutional* department of ROBERT WIGRAM & CO.

★

BARCLAYS BANK has appointed Mr Brian Thorpe as head of its registration and new issues department. He succeeds Mr Ron Carter who is retiring.

★

Mr Richard S. Beer has been appointed finance director of SEAC, a Halma subsidiary. He was company secretary and accountant for Leigh Stewart Products.

★

Mr Edward Holroyd has been appointed a director of LEEDS & HOLBECK BUILDING SOCIETY following the retirement of Lord Marshall of Leeds. Mr Holroyd is chairman and managing director of Holroyd Construction Group, chairman of Holderness Energy Group, and of Atalanta Engineering, and a director of the Alfred Blackmore Group.

★

ASSOCIATED FRESH FOODS has appointed Mr Henry Lavery as a non-executive director. He retired from the main board of Cadbury Schweppes in 1986.

★

TULLETT & TOKYO FOREX INTERNATIONAL has formed a new subsidiary, Tullett & Tokyo (Options), to trade OTC currency options. The management team will comprise: Mr A.J. Styant, chairman; Mr Anthony Webb, managing director; Mr Colin Heck, director; Mr Kelvin Jouhar and Mr Nigel Coupland, line managers.

★

Mr James Longcroft, chairman, Mr Roger Smith, Mr Eric Lyall, Mr Joseph Pratt, and Mr George Miller have all resigned from the board of TRICENTROL. Mr Michael R. Bowlin has been appointed chairman.

★

THE CHASE MANHATTAN BANK has appointed Dr Martin Stopford as senior shipping economist in the bank's global shipping component, from April 5. He was director, business development, at British Shipbuilders. Dr Stopford succeeds Mr Peter S. Douglas who is taking early retirement to pursue private business interests.

★

Mr Bhaskar Menon has agreed to rejoin the board of THORN EMI. He left the board in 1982 because of extensive international travel commitments in connection with EMI Music Worldwide, of which he remains chairman and chief executive.

★

Dr Catherine Baudino has been appointed chief executive of MAXWELL SATELLITE COMMUNICATIONS (formerly Oceonics Communications). She remains sales and marketing manager of Pergamon Media.

The downs and ups of the wide working world

BY MICHAEL DIXON

IF AT FIRST you don't succeed... give up!

That twist to the aged proverb was coined by the playwright Colin Welland. It will no doubt strike everyone immediately as directly the opposite of a good motto by which to proceed in life's work.

But, while I'm sure they do not include readers of this column, a lot of people do conform to that motto in their conduct – about two in every three, provided the obstacles to their success are daunting enough. And why some folk give up whereas others try again harder is not only one of the most fascinating questions in the psychology of motivation. It also has a bearing on the types of job different individuals are likely or otherwise to do well.

The most popular explanation, especially among managers, of why certain people are strongly motivated and others poorly so is that they were made that way in the first place. It is a view which finds some support in the experimental evidence.

For example, towards 50 years ago the American psychologist David McClelland showed that a minority of humans are high in what he called the need for achievement. They actively seek personal responsibility for solving problems, and hunger for swift and measurable feedback on how well they are doing.

Since business provides that sort of data, high achivement-need types typically become entrepreneurial executives or the like. Moreover, if they are given a choice of a range of problems ranging from the ridiculously easy to the impossible, they will choose to tackle one of the middle grade of difficulty: one in which their own efforts will tip the balance between failure and success. They can then earn the pride of personal accomplishment that is their staff of life.

That observation led to a notion about people who behave the opposite way. The idea was that whereas the achievement-needers are positively out to *gain the pride* of doing something well, the opposites adopt a negative approach. They are out to *avoid the shame* of doing something badly; instead of loving to succeed, they fear failing.

It was therefore surmised that if they were asked to choose a problem from the same range offered to the achievement-needy, they would make two types of choice. Either they would opt for a problem so easy that they could not possibly make a hash or it. Or they would select one so impossible that their inevitable failure could not be seen as their personal fault.

Unfortunately, that intriguing theory hit a snag. Although extensive tests showed that pride-earners uniformly chose problems of medium difficulty, the shame-avoiders did not consistently pick the supremely easy or impossible kinds. They often went for the middle-range ones too. Hence it appears that the explanation of high and low motivation cannot lie in there simply being opposite types of basic make-up.

So why do some people try again harder and others just give up?

A persuasive answer, of sharp relevance to the fitness of us humans for the work we take up, has now been pieced together by another American psychologist: Professor Martin Seligman of the University of Pennsylvania. His answer has two main strands. The first concerns the kinds of problems creatures experience in life, and it originates in his 1960s experiments with animals although similar results have since been obtained with people.

Locked in

Let's suppose you are plunged into a miserable experience such as being locked in a cubicle full of unbearable noise. Jobs-column readers would of course cast around for a way to turn it off, and once you found that pressing a point on a wall or whatever did the trick, you would try it again if the noise came back on. What is more, even if the same thing did not work a second time, you would cast around once more for some other dodge that did.

But suppose that from the beginning the noise just went on and on no matter what you did. The high probability would then be that after vainly seeking a cure for a while, you would give up and bear with the ills you had, growing increasingly depressed and apathetic. Moreover, if a person came into the cubicle and showed you that the din could be stopped by doing something a bit complex you had not previously tried, you would be unlikely to be able to learn to do it.

Of the animals and people Martin Seligman treated to such wretched experiences beyond their power to ease, about two thirds finished in the state of resigned apathy and inhibited learning ability just described. So anyone beset with personally uncontrollable work and/or other problems for any length of time is liable to end up in deep trouble. That is the bad news from the professor's researches.

The good news, which brings in the second strand of his answer, is that the remaining one third of his victims simply refused to give up striving to succeed no matter how sad their plight. "We think the difference between the two types of people lies, not in what objectively happens to them, but in how they explain to themselves why it is happening," he told me.

He suggests that there are three main sets of alternative explanations for a failure.

First you can either blame it on yourself and so believe the cause to be "internal", or you might lay the blame on some "external" agency. Second you can either accept that you lack the basic ability to succeed and so assume the failure to be "stable", or attribute it to your being temporarily off-form or another "unstable" cause. Third you can either decide the trouble is "specific" in the sense that you can't avoid doing badly at some things and this just happens to be one of them, or "global" in the sense that there is nothing you are good at whatsoever.

Now it seems that in the event of failure, some people explain it to themselves in the worst light as at the same time internal, stable and global. And they, in Martin Seligman's terms, are utter pessimists. A second lot tend to adopt a mix of the gloomy and chirpier alternatives, and so are less pessimistic. Those two groups together make up the two thirds prone to giving up when the going gets really bad.

Optimists

The other third typically see the cause of any reverse as being external, unstable, and specific. They are the complete optimists.

The professor, who has devised tests to distinguish finely between the different approaches, believes that it is only complete optimists who are really fitted for jobs whose doers are liable to continual shortfalls if not rude rebuffs. Examples apparently include commodity trading as well as selling various things, life assurance being a paradigm case.

Since 1983 he has been working with the Metropolitan Life group in the United States on selection of sales staff. "We've followed up on 1,000 recruits of recent years, and those in the more optimistic half of the range outsell the rest by 25 to 40 per cent," he said.

"That's not all, however. To get the job, you must usually pass an insurance-industry competence test. Besides the 1,000 who all passed, the company took on 129 who failed it but on our tests had extremely high optimism scores. They're outselling the whole lot of the others by 10 per cent."

What about those of us in the pessimistic trough — are we doomed to stay in it until dead?

Not necessarily, the professor thinks. Given that a key factor is the way we explain failures to ourselves, we could surely be raised in basic spirit by being trained to adopt a chirpier mode of accounting for life's upsets. US hospitals have tried perking up the self-explanation styles of patients suffering from severe depression, often with good effects which have lasted longer than those produced by drugs.

"But for most people down the self-doubting end," he added, "the best thing is to avoid work right in the front line. That's for optimists. Pessimists should do pessimists' jobs."

Could he give examples?

"Well," said Martin Seligman, "computer programming... and being a professor, I guess."

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CJRA

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Trading & Broking

Foreign Exchange

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For further information on the above vacancies please contact Richard Meredith on 01-623 1266.

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Jonathan Wren
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To compliment their existing activities, applications are sought from experienced individuals capable of establishing a new operation which will specialise in the sales aid and small ticket leasing market. Reporting at Board level, the appointee will be responsible for the formulation and implementation of a strategic plan and the recruitment of a highly specialist team in order to maximise market penetration.

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If you are interested in the above vacancies, or would like to discuss the market in general, please contact Jill Backhouse or Peter Haynes on 01-623 1266.

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Investment Analyst

The Ecclesiastical Insurance Group is a rapidly expanding organisation transacting most forms of insurance business.

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Write or telephone:
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Preferred age 30 - 35. Attractive negotiable salary plus substantial banking benefits.

Please send CV to: The Personnel Officer,
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CDC Representative West Africa

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Gordon Brown

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LONDON

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Mr R Rivkin
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NEW BUSINESS DEVELOPMENT

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Interested applicants should apply in confidence to:

The Managing Director, Churchill Financial Services Limited, Churchill House, 136 Buckingham Palace Road, London SW1W 9SA

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TUESDAY 22nd MARCH

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- at The Ritz Hotel, Piccadilly
- from 6.00pm – 8.30pm
- in The Marie Antoinette Suite

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- Black and Decker
- Data General
- Legal and General
- National Westminster Bank

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MD'S: TEST YOUR BUSINESS JUDGEMENT
C. £40K FINANCIAL SECTOR PACKAGE

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3i A WEALTH OF EXPERIENCE

Account Support Consultants

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COMMODITIES AND AGRICULTURE

Reagan not to implement sugar re-export scheme

BY NANCY DUNNE IN WASHINGTON

THE Reagan Administration has formally acknowledged it will not implement a 400,000-short tonne sugar re-export programme approved by Congress to aid the Caribbean Basin countries and The Philippines.

Senator Daniel Inouye, author of the scheme, last week received a letter from Mr Richard Lyng, US Agriculture Secretary.

This said the scheme would not be implemented "without additional legislation specifically authorising ... the necessary funding."

Sponsors of the initial measure are devising legislation to force the Agriculture Secretary to act.

The programme was part of a massive government-funding bill signed into law by President Reagan last December.

The plan provided for import to the US of 400,000 short tonnes of sugar from Caribbean Basin Initiative (CBI) countries and The Philippines.

The supply would not have been included under this year's 750,000-short tonne quota.

The sugar was to have been refined in the US and re-exported at world-market prices. Costs were to be subsidised by the Agriculture Department's Commodity Credit Corporation (CCC).

However, Mr Lyng refuses to provide the subsidies on the grounds he does not have the authority to use CCC funds for foreign farmers.

Mr Richard Smith, formerly a US Department of Agriculture top official, says the secretary is reluctant to set a precedent by using CCC money for that purpose.

However, more to the point, says Mr Smith, the secretary does not want to ease pressure on Congress to reform the price-support sugar programme.

That programme fixes domestic sugar prices at 18 cents a pound. It has forced the use of a quota and helped to push US imports down from 5m tonnes in the late-1970s to the current 750,000-tonne level.

The drop in US imports has had a disastrous effect on many Third World sugar-producers.

Mr Carlos Morales Troncoso, Vice-President, Dominican Republic, came to Washington last month to plead for implementation of the re-export scheme.

He said the severe cuts in the US quota had forced closure of five mills and unemployment had risen dramatically.

He said the permanent solution for sugar was a return to the competitive forces of supply and demand.

However, he added: "Without parallel action by the EEC it is unfair to ask US producers to bear the entire burden of operating in a free market."

Meanwhile, the sugar re-export scheme could give temporary relief through 1990, he said.

Appeals to President Reagan by several senators and congressmen of both political parties have also failed to sway the Administration.

Mr Jim Wright, House Speaker, and other House leaders from both parties wrote to the President.

They said: "There are those within the Administration who may choose to frustrate and delay the programme ... our foreign policy and credibility abroad will suffer.

"Failure to implement the import-export programme in a timely fashion will call into question our policy of encouraging private-sector solutions to the economic problems of our neighbours in Central America and The Philippines.

"We cannot understand why the Administration has not already moved to implement the programme given its positive foreign policy aspects."

They received a discouraging response from Mr Colin Powell, National Security Adviser.

He said the only lasting solution was "a fundamental reform of the US sugar programme, such as the President has proposed."

● On Monday Mr Lyng said the first US agricultural trade and development mission to The Philippines and Indonesia would be sent in mid-spring. It would include private-sector representatives, address those countries' food needs and help develop customers for US agricultural exports.

Demand for nickel 'to outstrip supply'

By Kenneth Gooding, Mining Correspondent

DEMAND FOR nickel would outstrip supply this year by about 10,000 tonnes, Ms Marguerite Manshreck-Head, market-research manager for Falconbridge, the Canadian mining group, said yesterday.

She said the deficit last year was about 34,000 tonnes and had, in effect, wiped out western-world stocks.

The dangerously low level of inventories, and continuing high demand for nickel, particularly from the stainless-steel industry, recently sent the London Metal Exchange price to record heights. Her remarks will add to upward pressures.

She said a recent visit to Europe caused her to revise upward forecasts for nickel demand this year. Consumption should be about 631,000 tonnes, only slightly below the 644,000 tonnes last year and well ahead of the 565,000 tonnes in 1986.

She said nickel-producers were operating at about 93 per cent of capacity, "and that is probably close to the maximum possible."

In the circumstances any interruption in supply was likely to lead to further volatility in LME prices.

However, most nickel was sold on contract directly to big consumers. Producers were still selling nickel at prices agreed in the final quarter of last year, she said.

Three-month nickel hit a record $5.31 a pound on the LME last Friday. Ms Manshreck-Head said: "It would be bad for the industry if nickel remained at $5 a pound for the long term, because it would call into question the viability of stainless steel [the major customer]."

Stainless-steel output rose by 15 per cent last year, from 8.1m tonnes in 1986, to 9.3m tonnes. Ms Manshreck-Head suggested this year's output would match or slightly beat last year's.

● P T Inco Indonesia will not start normal production until the end of this month, although repairs on its nickel-plant have been completed, reports Reuters.

The plant, 96 per cent-owned by Inco of Canada, was closed at the start of this month after an earthquake damaged a canal which brings water to its electricity-generating facility.

Yesterday Inco said it expected the shortfall would be made good and the plant's production this year would reach 77m lb, against 65m lb last year. All output goes to Japan.

The company is located at Soroakao, south Sulawesi, in the Celebes. It said it would take up to 10 days to heat smelting-pots before usual output could be resumed. Meanwhile, output would be much reduced, Mr Hitler Singawinata, company vice-president, said yesterday.

Australian gold rises all round

BY CHRIS SHERWELL IN SYDNEY

AUSTRALIA'S GOLD resources, output and exports have risen sharply over the past year, say official statistics.

Government estimates from the Bureau of Mineral Resources show a 24 per cent rise in so-called demonstrated economic resources of gold last year, to 1,274 tonnes. This is three times the total at end-1983.

Mine output last year, at 108 tonnes, was up 44 per cent on the previous year's level and double 1985 production. It is now the highest since the century's first decade.

Australian Bureau of Statistics figures show gold exports doubled in value in calendar 1987, reaching A$2bn against A$1bn the previous year. About A$280m of the rise was due to gold-coin exports.

The trends reflect benefits gold-mining companies enjoyed from Australian-dollar depreciation, international bullion-price buoyancy and absence of corporate income tax.

Other estimates from the Bureau of Mineral Resources show recoverable economic demonstrated resources of black coal rose by 46 per cent, to almost 50bn tonnes, mainly due to reassessment of New South Wales's resources.

Demonstrated resources of ilmenite and rutile in mineral sands rose by a third following discovery by CRA, the mining group, of resources in western Victoria.

A 26 per cent decline was shown for economic demonstrated tin resources, due to the fall in world prices on the market's collapse in 1986. This meant some resources were reclassified as sub-economic.

Under the bureau's system of classification so-called demonstrated resources represent the sum of measured and indicated resources. "Economic" means extraction would be profitable under defined investment assumptions.

Figures for Australian mineral exploration, issued separately yesterday, showed rises in onshore and offshore petroleum exploration in the December quarter.

Offshore exploration was up 74 per cent on the corresponding period in 1986. Onshore exploration was up 92 per cent.

US technology expected to boost Spanish gold output

BY OUR MINING CORRESPONDENT

MODERN TECHNOLOGY from the US is likely to boost Spain's gold output, says Mr Michael Foster, managing director of Thorco Resources, a Toronto-listed mining company with a London institutional following.

Thorco is technical manager. It has a 20 per cent interest in Filon Sur which owns Europe's first heap-leach gold project, about 31 miles (50 km) north of the port of Huelva, south-west Spain.

The project has been delayed two months by the wettest winter in living memory. The Spaniards call it the "100-year rain." A metre fell in three months.

However, ore-processing is under way and the first gold bullion will be poured by the end of this month.

Filon Sur, to obtain its gold, is using heap-leaching carbon-absorption techniques developed in Nevada, US.

The first step piles suitable, coarsely-ground ores on to an impermeable plastic pad and sprinkles them with a weak cyanide-in-water solution. This leaches out precious metal.

The solution is passed through tanks. These contain carbon granules usually made from coconut-shells. The gold transfers to them.

These processes obviate expensive milling-machinery traditionally used to grind ore to fine powder.

Filon Sur is processing 5.67m tonnes of gossan ore. Gossan ore is material from which rainwater has leached many minerals over millions of years.

The ore is moved aside by the Tharsis mining company, which is producing sulphur, copper and zinc from a huge pyrite deposit below the gossan.

Tharsis owns 51 per cent of Filon Sur; Centurion Espana, Thorco's 50-per-cent-owned subsidiary, has 40 per cent.

Members of a group of UK financial institutions own about 40 per cent of shares in Thorco.

Each tonne of gossan contains a mere 1.87 grams of gold and 37.64 grams of silver. Filon will none the less process 300,000 tonnes of ore a year to produce 12,000 troy oz of gold and 110,000 oz of silver.

Mr Foster says gold can be recovered for about $200 an ounce compared with the price in London of more than $420.

This would enable Filon Sur to recover $5m capital spent in two years. The project's life is at least 10 years, possibly 15.

Mr Foster believes Filon Sur proves gold can be recovered from previously-rejected material and that Spain will provide many similar projects for Thorco and its partners.

Thorco was the subject of a reverse takeover last year by Centurion Exploration and Mining. This UK-based mining-finance company has gold-mining interests in South Africa.

Thorco, in the financial year which started on March 1, expects its share of gold from Spain to be 2,500 oz and to obtain 3,000 oz from South Africa.

Jamaica raises bauxite levy

By Canute James in Kingston

JAMAICA'S GOVERNMENT has increased bauxite-output levy rates paid by companies mining and refining in the island, to US$20.93 a tonne for this year, 20 per cent higher than the price set at the year's start.

Mr Edward Seaga, Prime Minister and Finance Minister, said the ore's price was indexed to the average realised market price of aluminium ingot sold in leading markets.

He said this year's levy rate was based on an ingot price of 72 cents a pound, against 62 cents for last year.

Alcan Aluminium smelter to restart after vote

BY ROBERT GIBBENS IN MONTREAL

ALCAN ALUMINIUM'S smelter at Shawinigan, near Montreal, is restarting production after nearly 500 workers voted to accept a three-year wage pact.

The smelter produces 84,000 tonnes a year. It has been closed for 4½ months. The company locked out the workers on October 31 after a one-day strike, saying it was forced to prevent possible damage.

Alcan will begin restocking the potlines today. The start-up will be gradual. Full operation will not be reached until early in May.

The workers will receive a total of 11 per cent over three years. The pay-indexing formula remains unchanged.

Alcan signed a similar deal at its other Quebec smelters this month. Early in the year the company reopened a second production line at Sebree, Kentucky. It may bring in a third shortly.

WEEKLY METALS PRICES

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 2,280-2,300 (2,270-2,300).

BISMUTH: European free market, min 99.99 per cent, $ per lb, tonne lots in warehouse, 5.50-5.70 (same).

CADMIUM: European free market, min 99.95 per cent, $ per lb, in warehouse, ingots 6.85-7.05 (6.40-6.90), sticks 6.85-7.05 (6.40-6.90).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 6.80-7.00 (same).

MERCURY: European free market, min 99.99 per cent, $ per 76 lb flask, in warehouse, 285-305 (288-310).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.30-3.45 (3.20-3.25).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 10.40-10.60 (10.40-10.80).

TUNGSTEN ORE: European free market, standard min 65 per cent, $ per tonne unit (10 kgs) WO, cif, 50-58 (same).

VANADIUM: European free market, min 98 per cent, VO, cif, 3.00-3.10 (2.90-2.98).

URANIUM: Nuexco exchange value, $ per lb, UO, 16.30 (same).

Kenneth Gooding looks at a market freed 'to do its own thing'

When the weighing-room floor collapsed

IN MARCH 1968 the Bank of England's weighing-room floor, crammed with gold, collapsed; soon, leading central banks' attempts to keep the gold price stable at $35 a troy ounce, the official level since 1934, also collapsed; and, 20 years ago this week, private individuals in main industrialised countries were freed to trade gold at any price the market sustained.

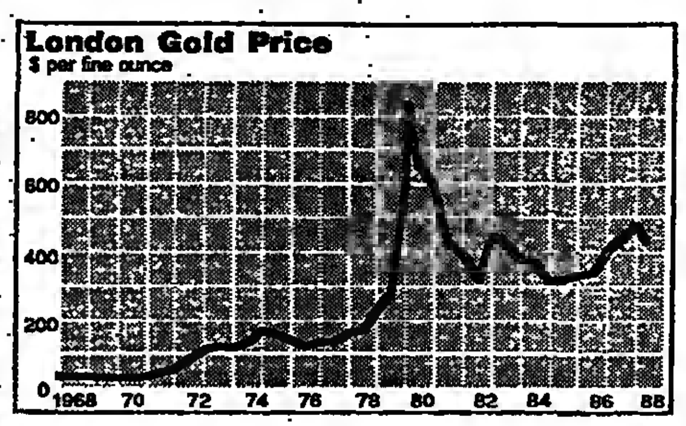
Mr Rob Weinberg, analyst with James Capel, stockbrokers, says: "The authorities let the gold market loose to do its own thing. It was freed from artificial restraints at last."

The first time gold threatened to breach $35 was in 1961. An international gold pool was set up to defend the price.

In it were the US, Belgium, France, Italy, The Netherlands, Switzerland, West Germany and the UK.

The official gold price was significant because, although the dollar was the only currency officially convertible to gold, the Bretton Woods agreement of 1948 ushered in an era of fixed exchange rates.

Major currencies were fixed in relation to gold or to the dollar equivalent.



The pool gave the Bank the job of keeping the gold price stable. It did so through a direct telephone line to London's so-called fix, the daily meetings, at the offices of N. M. Rothschild & Sons, where much of the world's gold trade takes place.

The pool worked well until 1966. By the end of 1967 private speculators were rushing to buy gold; sterling had collapsed; there was pressure on the dollar because the US balance of payments was deteriorating as the Vietnam War dragged on.

Most pool-members, with 24,000 tons of gold at their disposal, still believed, wrongly, that $35 an ounce could be sustained. The exception, France, opted out.

Mr Timothy Green, the writer, in his book The New World of Gold published in 1985, recalled: "Between March 8 and 15 1968 the pool had to provide nearly 1,000 tons of gold to hold the price at the fix.

"US Air Force planes rushed more and more Fort Knox gold to London. The pool's bluff had been called."

On March 15, after the pool had lost about an eighth of reserves, the London gold market was closed at US request. It remained so for two weeks.

When it reopened the gold business had a new, two-tier structure:

● Central banks and other monetary institutions continued to deal with each other at the official price of $35, meaning there was no dollar devaluation.

● In the free market the price was let to find its own level.

Central banks were forbidden to deal in the free market.

So, the system divorced monetary from non-monetary gold and did so until gold was effectively de-monetised in 1971 when the US closed its so-called gold window, at which dollars could be swapped for gold.

However, as Mr Weinberg says, gold remains an important element of official reserves.

Central banks and other official agencies still hold about 38,000 tons of gold, about 38 per cent of total stocks, in their reserves.

WORLD COMMODITIES PRICES

LONDON MARKETS

COCOA PRICES staged a rally in afternoon trading after the second position futures contract had earlier fallen to a new 5½-year low of £912 a tonne. In the event the contract closed at £939 a tonne – a rise of £9. The rally was sparked by traders covering short positions on fears of continuing tightness of supplies of Ivory Coast cocoa for nearby delivery. An estimated 100,000 to 200,000 tonnes of unsold cocoa is being held at Ivory Coast ports, and nearby Ivorian cocoa is fetching a premium of about £70 a tonne. On the LME aluminium prices retreated from Monday's record dollar highs on news of the settlement of Alcan's dispute at its Shawinigan smelter (see story above). The Biffex freight futures market touched record highs before retreating on profit-taking. Dealers said market buoyancy reflected the 8.5 point rise in the Baltic Freight Index to a record 1,590 points.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$12.80-3.00w	-0.175
Brent Blend	$14.30-4.38y	-0.576
W.T.I. (1 pm est)	$15.65-5.70y	-0.14
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$163-165	-2.5
Gas Oil (Soviet)	$127-129	-1
Heavy Fuel Oil	$61-63	-2
Naphtha	$135-137	-1
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$442.25	+1
Silver (per troy oz)♣	624c	+1
Platinum (per troy oz)	$490.15	-2.65
Palladium (per troy oz)	$121.75	-0.75
Aluminium (free market)	$2390	-15
Copper (US Producer)	112⅛-16c	+2
Lead (US Producer)	35.5c	
Nickel (free market)	580c	-10
Tin (European free market)	£3750	+15
Tin (Kuala Lumpur market)	17.40r	+0.06
Tin (New York)	321.5c	
Zinc (Euro. Prod. Price)	$920	
Zinc (US Prime Western)	48⅝c	+⅛
Cattle (live weight)†	109.64p	
Sheep (dead weight)†	187.67p	
Pigs (live weight)†	70.62p	
London daily sugar (raw)	$218.60x	-2.40
London daily sugar (white)	$231.50x	-2.80
Tate and Lyle export price	£224.50	-0.80
Barley (English feed)	£107.00y	
Maize (US No. 3 yellow)	£134.00	
Wheat (US Dark Northern)	£91.00s	+1.75
Rubber (spot)♥	61.75p	
Rubber (Apr) ♥	65.75p	
Rubber (May) ♥	65.75p	
Rubber (KL RSS No 1 Mar)	265.00my	
Coconut oil (Philippines)§	$535.0s	-5.0
Palm Oil (Malaysian)§	$370.0y	
Copra (Philippines)§	$370.0x	
Soyabeans (US)	£153.5	+3.5
Cotton "A" index	65.80c	+0.20
Wooltops (64s Super)	570p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb r-ringgit/kg w-May z-Mar. u-Apr/Sep. x-Mar/Apr. y-Apr. t-Apr/Jun. s-Apr/May. †Meat Commission average fatstock prices. * change from a week ago ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian/Singapore cents/kg.

COCOA £/tonne

	Close	Previous	High/Low
Mar	918	908	914 886
May	939	930	939 912
Jly	955	948	959 929
Sep	975	963	973 948
Dec	998	989	1000 972
Mar	1024	1017	1025 997
May	1043	1037	1037 1013

Turnover: 8898 (6244) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for March 14 : 1209.72 (1243.34) .10 day average for March 15 : 1259.73 (1265.76)

COFFEE £/tonne

	Close	Previous	High/Low
Mar	1141	1142	1141 1135
May	1167	1172	1170 1160
Jly	1191	1198	1193 1190
Sep	1215	1220	1217 1210
Nov	1241	1245	1243 1239
Jan	1267	1270	1266 1263
Mar	1285	1285	

Turnover: 1336 (1032) lots of 5 tonnes
ICO indicator prices (US cents per pound) for March 15 Comp. daily 1979 119.64 (110.78); 15 day average 120.02 (120.40).

SUGAR $ per tonne

Raw	Close	Previous	High/Low
May	183.60	185.00	186.00 182.80
Aug	183.80	184.60	185.20 183.40
Oct	183.20	184.80	185.40 182.60
Dec	182.60	183.80	
Mar	183.80	185.00	183.80 183.60
May	185.40	187.00	

White	Close	Previous	High/Low
May	227.40	229.00	229.30 226.50
Aug	228.00	229.00	229.50 227.00
Oct	228.00	229.00	227.50 227.50
Dec	228.00	229.00	
Mar	229.00	231.50	
May	230.00	230.00	
Aug	235.00	234.00	

Turnover: Raw 2859 (891) lots of 50 tonnes; White 754 (293)
Paris- White (FFr per tonne): May 1295, Aug 1298, Oct 1294, Dec 1295, Mar 1315, May 1320

GAS OIL $/tonne

	Close	Previous	High/Low
Apr	125.00	125.00	125.00 123.00
May	124.00	124.00	124.25 122.00
Jun	125.75	126.25	125.75 123.00
Jul	128.25	128.25	128.25 124.25
Aug	127.75	127.50	127.50 127.50

Turnover: 4080 (5361) lots of 100 tonnes

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Mar	102.65	103.50	103.70 102.80
May	105.10	106.45	105.75 105.10
Jly	107.40	107.90	108.15 107.40
Sep	100.90	101.50	100.90 100.90
Nov	102.70	102.85	102.80 102.70
Jan	104.85	105.00	104.85 104.85
Mar	106.85	107.00	105.00 106.85

Barley	Close	Previous	High/Low
Mar	101.95	102.15	102.30 101.95
May	104.35	104.25	104.50 104.35
Sep	97.30	97.40	97.30 97.20
Nov	99.90	100.00	99.90 99.00
Jan	102.20	102.30	102.20 102.20
Mar	104.20	104.30	104.20 104.20

Turnover: Wheat 125 (134) . Barley 27 (79) lots of 100 tonnes.

LONDON METAL EXCHANGE

(Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 0 tonne
Cash	2375-85	2400-10		2385-95		
3 months	2220-30	2240-60		2230-40	2210-30	3,762 lots
Aluminium, 99.5% purity (£ per tonne)						Ring turnover 25,650 tonne
Cash	1274-6	1299-301		1284-6		
3 months	1190-2	1209-10	1216/1184	1200-1	1188-9	46,932 lots
Copper, Grade A (£ per tonne)						Ring turnover 59,450 tonne
Cash	1201-2	1301-3	1270/1250	1264-5		
3 months	1191-2	1223-6	1213/1185	1207-8	1189-90	69,099 lots
Copper, Standard (£ per tonne)						Ring turnover 0 tonne
Cash	1210-20	1255-65		1225-35		
3 months	1165-75	1195-205		1180-90		27 lots
Silver (US cents/fine ounce)						Ring turnover 10,000 ozs
Cash	621-2	618-21		622-2.5		
3 months	631-2	629-32		633-6	635-40	746 lots
Lead (£ per tonne)						Ring turnover 10,000 tonne
Cash	352-4	352-4	346	348-7		
3 months	329-30	331-2	331/327	328-8.5	328-9	11,138 lots
Nickel ($ per tonne)						Ring turnover 1,134 tonne
Cash	12680-800	12950-3050	12800	12600-3000		
3 months	10890-900	10975-1025	10900/10650	10690-700	10650-800	5,814 lots
Zinc (£ per tonne)						Ring turnover 5,900 tonne
Cash	520-2	517-8	522	522-3		
3 months	521-2	519-9.5	523.5/515	522-3	519-20	13,669 lots

POTATOES £/tonne

	Close	Previous	High/Low
Apr	144.2	144.50	145.5 143.6
May	152.0	153.90	154.3 152.0
Nov	95.0	93.50	94.9 94.5
Feb	101.0	101.50	
Apr	141.0	140.90	142.0 141.5

Turnover: 884 (870) lots of 100 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Apr	122.50	122.00	122.00 122.00
Jun	119.50	118.50	119.00 119.00
Aug	118.50	117.80	
Oct	120.00	119.00	
Dec	124.50	124.00	

Turnover: 90 (38) lots of 100 tonnes.

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low
Apr	1663.0	1657.5	1670.0 1655.0
Jly	1539.0	1539.0	1560.0 1535.0
Oct	1565.0	1570.5	1576.0 1565.0
Jan	1549.0	1540.0	1550.0 1540.0
BFI	1590.0	1583.5	1590.0 1590.0

Turnover: 555 (279)

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	442-442½	235-235½
Opening	444¼-444¾	238-239½
Morning fix	442.25	236.603
Afternoon fix	442.20	236.550
Day's high	443-443½	
Day's low	444¼-444¾	

Coins	$ price	£ equivalent
US Eagle	455-460	245-248
Mapleleaf	455-460	245-248
Britannia	455-460	245-248
Krugerrand	441-444	237½-239½
1/2 Krug	229-236	124-129
1/4 Krug	113½-121¼	31½-65⅞
Angel	452-457	245¼-247⅞
1/10 Angel	45-50	24⅜-27⅛
New Sov.	104-105½	56-57
Old Sov.	104-106	56-85⅞
Noble Plat	503⅝-508⅝	278⅛-276⅞

Silver fix	p/fine oz	US cts equiv
Spot	338.40	628.75
3 months	345.80	637.55
6 months	353.93	648.40
12 months	369.20	672.20

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	May	July	May	July
2100	236	173	46	144
2200	173	130	76	198
2300	120	96	126	263
Aluminium (99.5%)	**Calls**		**Puts**	
2100	219	167	58	150
2200	157	116	91	207
2300	106	84	141	273
Copper (Grade A)	**Calls**		**Puts**	
2100	235	217	101	178
2200	179	173	146	233
2300	135	137	201	294

COTTON

Liverpool- Spot and shipment sales for the week ending March 11 amounted to 433 tonnes against 1,605 tonnes in the previous week. Orders were relatively varied with growths including West African, American, Pakistan and Colombian styles.

JUTE

C and f Dundee: BTC $525, BWC $515, BTD $450, BWD $440; c and f Antwerp BTC $500, BWC $490, BWD $435, BTD $445.

US MARKETS

Following early indifferent action, the precious metals markets rallied in late trading as a combination of trade and local buying caused prices to rise to near-term resistance levels, touching off commission house stops, reports Drexel Burnham Lambert. Copper fell in the latter half of the afternoon after being under pressure for most of the day from commission house selling as the market backed-away from overhead resistance levels. Energy futures were held to narrow ranges with trade selling at the highs and trade buying at the lows. Coffee and sugar continued weak on speculative selling, but cocoa rallied on short-covering. Hogs eased reflecting softer cash values while bellies eased in anticipation of heavy physical movement.

New York

GOLD 100 troy oz; $/troy oz

	Close	Previous	High/Low
Mar	446.3	441.9	0 0
Apr	447.8	448.1	448.5 442.8
Jun	451.5	447.4	452.0 446.8
Aug	455.8	451.0	455.6 451.7
Oct	461.1	455.5	0 0
Dec	466.1	460.0	467.0 461.0
Feb	471.1	465.2	0 0
Apr	476.2	470.3	0 0
Jun	481.9	475.8	481.5 481.5

PLATINUM 50 troy oz; $/troy oz

	Close	Previous	High/Low
Mar	500.1	491.3	0 0
Apr	503.4	492.1	504.0 487.2
Jul	505.4	497.4	506.0 493.6
Oct	511.7	502.9	509.5 508.5
Jan	517.4	508.4	0 0
Apr	523.1	514.1	0 0

SILVER 5,000 troy oz; cents/troy oz

	Close	Previous	High/Low
Mar	635.4	624.5	635.0 623.0
Apr	636.9	626.0	0 0
May	642.5	630.0	643.0 627.5
Jul	650.5	638.0	650.5 635.0
Sep	658.1	645.6	658.0 644.3
Dec	670.1	658.1	670.5 658.0
Jan	674.3	661.9	0 0
Mar	683.3	670.0	681.0 681.0
May	692.1	678.8	0 0
Jul	701.5	688.0	0 0

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low
Mar	101.10	105.05	104.30 101.10
Apr	98.50	102.00	0 0
May	94.30	97.75	97.00 94.30
Jul	90.80	93.75	93.10 90.80
Sep	87.50	89.45	89.50 87.50
Dec	84.60	85.95	86.00 84.00
Jan	83.90	85.25	0 0
Mar	82.80	83.95	83.50 83.50
May	82.30	83.70	0 0
Jul	82.30	83.75	82.55 82.55

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low
Apr	15.63	15.58	15.71 15.47
May	15.54	15.48	15.61 15.36
Jun	15.51	15.48	15.57 15.25
Jul	15.46	15.43	15.55 15.21
Aug	15.42	15.40	15.51 15.30
Sep	15.44	15.39	15.47 15.00
Oct	15.45	15.39	15.50 15.35
Dec	15.46	15.39	15.56 15.35

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low
Apr	43.55	43.34	43.80 43.10
May	41.85	41.79	42.15 41.36
Jun	41.30	41.28	41.50 41.10
Jul	41.30	41.30	41.50 41.15
Aug	41.91	41.80	41.85 41.85
Sep	42.75	42.50	42.00 42.50
Oct	43.35	43.15	43.25 43.25
Nov	44.15	43.85	44.15 44.15
Dec	45.10	44.35	45.10 44.85

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low
Mar	1546	1537	1547 1500
May	1590	1553	1602 1555
Jul	1624	1591	1627 1585
Sep	1655	1616	1655 1620
Dec	1692	1653	1692 1650
Mar	1710	1685	1718 1686
May	1745	1710	1740 1733
Jul	1778	1741	1783 1782

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low
Mar	134.80	135.25	135.50 134.75
May	135.88	136.24	136.35 135.50
Jul	138.00	138.40	138.40 138.00
Sep	140.00	140.40	140.40 139.75
Dec	142.60	142.95	142.90 142.40
Mar	142.05	142.95	143.00 142.50
May	143.88	144.25	144.00 144.50
Jul	143.63	144.00	0 0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low
Mar	8.10	8.26	8.27 8.17
May	8.12	8.23	8.22 8.11
Jul	8.12	8.22	8.21 8.11
Oct	8.13	8.27	8.23 8.10
Jan	8.10	8.13	8.10 8.10
Mar	8.17	8.25	8.26 8.16
May	8.31	8.34	8.35 8.28
Jul	8.42	8.46	0 0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low
Mar	63.95	63.47	63.78 62.90
May	62.62	62.72	62.86 62.25
Jul	62.65	62.95	62.86 62.25
Oct	59.95	58.85	58.85 58.50
Dec	57.62	57.20	57.40 56.90
Mar	57.76	57.95	57.95 57.50
May	58.15	58.37	58.75 58.15
Jul	58.45	58.78	0 0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low
Mar	165.75	165.85	166.00 165.00
May	155.15	156.40	158.00 157.50
Jul	155.00	157.00	156.75 154.40
Sep	151.85	152.40	152.80 151.00
Nov	148.75	147.50	148.25 147.60
Jan	147.00	144.75	147.00 144.50
Mar	147.00	146.25	0 0
May	144.85	146.25	0 0

INDICES

REUTERS (Base: September 18 1931 = 100)

Mar 14	Mar 11	mnth ago	yr ago
1724.7	1719.4	1765.9	1541.6

DOW JONES (Base: December 31 1974 = 100)

Spot	128.64	128.22	130.69	113.23
Futures	132.58	131.71	134.46	112.89

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low
Mar	613/6	614/6	614/2 611/0
May	622/6	622/6	623/4 619/4
Jul	631/0	631/2	632/0 628/0
Aug	633/0	633/6	634/4 631/0
Sep	633/4	635/0	636/0 633/4
Nov	645/2	645/0	645/4 642/6
Jan	653/0	652/4	653/0 650/0
Mar	661/0	660/4	661/0 658/4
May	665/0	664/4	0 0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low
Mar	20.04	20.12	20.12 19.97
May	20.34	20.44	20.42 20.27
Jul	20.69	20.76	20.77 20.63
Aug	20.81	20.91	20.92 20.76
Sep	20.93	20.97	21.05 20.82
Oct	21.00	21.10	21.16 21.05
Dec	21.25	21.28	21.40 21.25
Jan	21.30	21.25	21.40 21.60
Mar	21.35	21.30	21.00 21.35

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low
Mar	185.5	185.2	186.0 184.7
May	184.2	183.9	184.5 183.4
Jul	184.7	184.1	185.1 183.8
Aug	185.5	184.9	185.8 184.8
Sep	185.5	185.5	186.5 185.5
Oct	187.0	187.2	187.5 186.8
Dec	188.5	189.2	190.0 188.0
Jan	190.5	190.1	191.0 190.5
Mar	193.5	193.5	193.5 193.5

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low
Mar	198/0	198/2	199/0 197/0
May	205/4	205/2	206/2 204/4
Jul	210/0	209/6	210/2 208/6
Sep	212/6	212/2	213/0 211/6
Dec	217/0	216/4	217/0 215/6
Mar	224/0	223/4	224/0 223/0
May	229/0	228/2	229/0 227/2

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low
Mar	295/0	295/2	296/0 293/6
May	303/4	302/6	304/0 301/4
Jul	309/2	307/4	309/4 305/4
Sep	314/4	313/4	314/6 313/2
Dec	326/0	325/4	326/4 324/0
Mar	330/4	328/4	0 0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low
Apr	73.82	74.00	74.10 73.65
Jun	70.82	70.85	71.00 70.57
Aug	67.55	67.62	67.77 67.32
Oct	66.40	66.52	66.62 66.20
Dec	67.37	67.32	67.50 67.10
Feb	67.35	67.25	67.35 67.25

LIVE HOGS 30,000 lbs; cents/lbs

	Close	Previous	High/Low
Apr	45.20	46.22	45.50 44.92
Jun	49.05	49.20	49.40 48.85
Jul	48.45	48.87	49.00 48.40
Aug	46.35	46.87	46.75 46.17
Oct	42.72	42.92	43.00 42.62
Dec	42.90	43.05	43.20 42.82
Feb	43.05	43.25	43.25 42.95
Apr	41.10	41.50	41.50 41.10

PORK BELLIES 38,000 lbs; cents/lbs

	Close	Previous	High/Low
Mar	52.82	53.57	53.65 52.55
May	53.56	54.87	54.80 53.50
Jul	54.47	55.50	55.65 54.42
Aug	53.40	54.35	54.85 53.40
Feb	55.90	56.00	56.20 55.60

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling gets the green light

STERLING IMPROVED in currency markets, following a favourable response to Chancellor Lawson's Budget speech. Investors reacted to the Chancellor's decision to use interest rates to control the rate of inflation. This was seen as reducing the chances of an early cut in base rates, despite the recent decline in cash rates.

Consequently demand for sterling, which had been building up in the morning, continued in the afternoon, pushing its exchange rate index to 77.6 from 77.2 at the opening and last night's close.

One dealer claimed that the overall package was seen as prudent and that markets saw the Budget as a positive step. Demand for the pound included buying out of Tokyo, as Japanese investors sought to increase holdings in UK Government bonds.

Another trader claimed that recent fears about a widening UK current account deficit had been overplayed, especially after the Chancellor had announced a public sector debt repayment of £3bn in the financial year 1988/89. The pound rose to $1.8545 from $1.8530 and DM3.0875 compared with DM3.0825. There were signs of intervention by the Bank of England to control the rise in sterling, and as one one dealer emphasised, its retreat from a day's high of *DM3.0925* was not in line with the market's bullish trend.

Elsewhere the pound rose to Y235.75 from Y235.25 and SFr2.5525 from SFr2.5425. Against the French franc it was higher at FFr10.4950 from FFr10.4700.

UK industrial production fell by 0.6 p.c. in January to give a 4¼ p.c. rise from a year earlier. The December figure was revised to show a 0.3 p.c. increase against 0.6p.c. earlier. Manufacturing output rose by just 0.2 p.c. in January to give a year on year rise of 8¼ p.c. The December figure was revised to an increase of 0.4 p.c. compared with an earlier estimate of a 0.4 p.c. fall.

The dollar finished a little firmer where changed, after better than expect 4th quarter current account figures. The deficit narrowed to $39bn from $43.4bn in the 3rd quarter. Earlier, some analysts had been pointing towards a deterioration in the invisibles sector as a result of an increase in overseas holdings of US debt. However there were also fears that US rates would have to be increased, in order to stimulate the appetite of overseas investors to service US funding requirements.

The dollar rose to DM1.6650 from DM1.6630 and Y127.10 compared with Y126.90. Elsewhere it improved to SFr1.3765 from SFr1.3725 and FFr5.6600 compared with FFr5.6500. On Bank of England figures, the dollar's exchange rate index fell from 93.4 to 93.3.

JAPANESE YEN-Trading range against the dollar in 1987/88 is 159.45 to 121.35. February average 129.17. Exchange rate index 241.0 against 221.1 six months ago. Support by the Bank of Japan helped the dollar to recover from the day's lows in Tokyo. The Bank's presence in the market, although relatively low key, served to remind investors of its commitment to keeping the dollar relatively stable. Strong resistance is expected around the Y126.80 level, which was yesterday's low in Tokyo, until after the end of the Japanese financial year on March 31.

The dollar closed at Y127.25, up from Y126.85 in New York. While the release of January trade figures for the US on Thursday remained the most important factor affecting sentiment, dealers were also looking at US 4th quarter current account data, due for release after the close of business in Tokyo.

Japanese wholesale prices fell by 0.1 p.c. in February, the fourth consecutive decline, and down 1.0 p.c. from a year ago.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Mar.15	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.3323	+2.06	+0.86	±1.5344
Danish Krone	7.85212	7.93503	+1.06	-0.14	±1.5404
German D-Mark	2.05853	2.06990	+0.55	-0.65	±1.0981
French Franc	6.90403	7.04313	+2.01	+0.81	±1.3674
Dutch Guilder	2.31943	2.32590	+0.28	-0.92	±1.5012
Irish Punt	0.768411	0.774600	+0.81	-0.39	±1.6684
Italian Lira	1483.58	1534.39	+3.42	+2.82	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Mar.15	Latest	Previous Close
£ Spot	1.8515-1.8525	1.852-1.853
1 month	0.31-0.29pm	0.32-0.31pm
3 months	0.92-0.88pm	0.92-0.9
12 months	3.20-3.10pm	3.53-3.30pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Mar.15	Previous
0.30 am	77.2	77.3
9.00 am	77.2	77.4
10.00 am	77.2	77.5
11.00 am	77.3	77.4
Noon	77.3	77.4
1.00 pm	77.4	77.4
2.00 pm	77.3	77.4
3.00 pm	77.4	77.3
4.00 pm	77.6	77.2

CURRENCY RATES

Mar.15	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.742859	0.671669
U S Dollar	6	1.37986	1.24393
Canadian $	8.75	N/A	1.56287
Austrian Sch.	3	16.0878	14.5566
Belgian Franc	6½	47.8880	43.3323
Danish Krone	7½	8.74141	7.93503
Deutsche Mark	2½	2.28891	2.06990
Neth Guilder	3¼	2.57275	2.32590
French Franc	9½	7.78034	7.04313
Italian Lira	12½	N/A	1534.39
Japanese Yen	2½	175.656	158.041
Norway Krone	8	8.68898	7.87221
Spanish Peseta	-	154.053	139.134
Swedish Krona	7½	N/A	7.36904
Swiss Franc	2½	8.74141	1.71128
Greek Drach.	20½	183.452	166.040
Irish Punt	-	N/A	0.774600

*All SDR rates for Mar.14

CURRENCY MOVEMENTS

Mar.15	Bank of England Index	Morgan** Guaranty Changes %
Sterling	77.6	-16.3
U.S Dollar	93.3	-13.4
Canadian Dollar	79.9	-7.0
Austrian Schilling	[illegible]	[illegible]
Belgian Franc	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]
Deutsche Mark	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]
Guilder	[illegible]	[illegible]
French Franc	[illegible]	[illegible]
Lira	[illegible]	[illegible]
Yen	241.0	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100) *Rates are for Mar 14

OTHER CURRENCIES

Mar.15	£	$
Argentina	[illegible]	[illegible]
Australia	[illegible]	[illegible]
Brazil	[illegible]	[illegible]
Finland	[illegible]	[illegible]
Greece	[illegible]	[illegible]
Hong Kong	[illegible]	[illegible]
Iran	[illegible]	[illegible]
Korea(Sth)	[illegible]	[illegible]
Kuwait	[illegible]	[illegible]
Luxembourg	[illegible]	[illegible]
Malaysia	4.7365-4.7485	2.5600-2.5630
Mexico	4209.90-4221.40	2275.00-2280.00
N. Zealand	2.7595-2.7645	1.4900-1.4930
Saudi Ar.	6.9440-6.9500	3.7500-3.7515
Singapore	3.7250-3.7310	2.0120-2.0140
S. Af (Cm)	3.9390-3.9540	2.1310-2.1340
S. Af (Fn)	4.9370-5.0720	2.6600-2.7395
Taiwan	52.90-53.15	28.60-28.70
U.A.E.	6.7995-6.8056	3.6650-3.6735

*Selling rate (1)Argentina Official rate now quoted

POUND SPOT- FORWARD AGAINST THE POUND

Mar.15	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.90
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.26
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.69
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.32
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.13
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.90
W. Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.43
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-4.68
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc 64.65-64.75. Six-month forward dollar 1.73-1.68pm 12 month 3.15-3.07pm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Mar.15	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 54.85-54.95.

EURO-CURRENCY INTEREST RATES

Mar.15	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
U.S. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sw. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutschmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Fr. (Fin)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Fr. (Con)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years 8-7⅞ per cent; three years 8¼-8⅛ per cent; four years 8½-8⅜ per cent; five years 8⅝-8½ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Mar.15	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
$	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DM	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
F Fr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S Fr.	0.392	0.727	1.210	92.36	4.113	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
H Fl.	0.288	0.535	0.890	67.99	3.028	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Lira	0.437	0.810	1.349	103.0	4.587	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
C $	0.429	0.796	1.325	101.2	4.505	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B Fr.	1.547	2.869	4.776	364.7	16.24	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Gilts finish near day's low

LONG TERM gilt futures retreated from the high touched on first reaction to the Budget, to close near the day's low on Liffe. A forecast of 4 p.c. inflation at the end of this year was regarded as disappointing, and traders also saw little hope of an early cut in UK bank base rates.

Sterling had an underlying firm tone as the Budget statement began, providing support *for long term gilt futures. June* gilts were trading at 123-18 just before Mr Nigel Lawson, the Chancellor, began his statement to Parliament, but then rose to a peak of 123-25, the highest level since early November, on the forecast of a £3bn public sector debt repayment for the current financial year.

As traders continued to digest the Budget speech June long gilts fell back, to close at 123-06, slightly above Monday's close of 123-00, and against a low of *123-05*.

Three-month sterling deposit futures closed around the middle of the day's range, at 91.16 for June delivery, compared with 91.08 at the opening, and 91.02 at Monday's close.

Cash rates showed little movement on the money market, after easing during the *morning ahead* of the Chancellor's statement.

FTSE 100 index futures rose after Mr Lawson announced lower than expected increases in duty on tobacco and alcohol, but also finished around the middle of the day's range.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
104	—	56	—	562
106	—	—	—	—
108	—	—	—	—
110	1313	—	1	—
112	1115	—	3	—
114	918	—	6	—
116	727	—	15	—

Estimated volume total, Calls 3852 Puts 1708
Previous day's open int. Calls 27785 Puts 18713

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
86	656	635	28	107
88	511	510	47	146
90	338	360	110	232
92	216	252	152	324
94	117	200	253	436
96	45	125	417	561
98	25	59	561	731

Estimated volume total, Calls 0 Puts 0
Previous day's open int. Calls 1049 Puts 1168

LIFFE FT-SE INDEX FUTURES OPTIONS

Strike Price	Calls-settlements Mar	Calls-settlements Apr	Puts-settlements Mar	Puts-settlements Apr
17000	1577	1646	7	86
17500	909	1237	39	177
18000	511	885	141	325
18500	233	599	363	539
19000	83	383	713	823
19500	22	230	1152	1170
20000	5	130	1635	1570

Estimated volume total, Calls 0 Puts 1
Previous day's open int. Calls 43 Puts 98

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls-settlements Apr	Calls-settlements MAY	Puts-settlements Apr	Puts-settlements MAY
170	1570	1570	1	14
175	1070	1070	12	53
180	607	666	68	155
185	273	364	234	353
190	89	170	550	659
195	20	67	981	1056
200	—	—	—	—

Estimated volume total, Calls 0 Puts 0
Previous day's open int. Calls 223 Puts 211

LIFFE EURODOLLAR OPTIONS
$1m points of 100%

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
9200	95	83	6	25
9225	72	66	10	33
9250	52	50	15	42
9275	35	37	23	54
9300	21	26	34	68
9325	12	18	50	85
9350	6	12	69	104

Estimated volume total, Calls 20 Puts 70
Previous day's open int. Calls 1896 Puts 1116

LIFFE SHORT STERLING

Strike Price	Calls-settlements Mar	Calls-settlements Jun	Puts-settlements Mar	Puts-settlements Jun
9050	73	74	0	8
9075	48	54	0	13
9100	24	37	1	21
9125	6	24	8	33
9150	1	15	28	49
9175	0	8	52	67
9200	0	4	77	88

Estimated volume total, Calls 826 Puts 349
Previous day's open int. Calls 8035 Puts 6267

PHILADELPHIA SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls Apr	Calls May	Calls Jun	Calls Sep	Puts Apr	Puts May	Puts Jun	Puts Sep
1.700	14.90	14.90	15.10	15.50	-	0.25	0.45	1.55
1.725	12.40	12.45	12.75	13.45	0.15	0.45	0.70	2.05
1.750	9.95	10.20	10.60	11.55	0.25	0.65	1.05	2.75
1.775	7.65	8.10	8.70	9.85	0.50	1.10	1.65	3.60
1.800	5.60	6.25	6.95	8.30	0.90	1.70	2.35	4.55
1.825	3.95	4.70	5.45	6.95	1.55	2.50	3.35	5.65
1.850	2.55	3.35	4.15	5.75	2.50	3.65	4.55	6.95

Previous day's open int: Calls 297,241 Puts 298,252
Previous day's volume: Calls 15,975 Puts 9,817

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls-settlements Apr	Calls-settlements May	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Apr	Puts-settlements May	Puts-settlements Jun	Puts-settlements Sep
1.60	-	-	23.80	24.20	-	-	0.50	1.20
1.65	-	-	18.65	19.05	-	-	1.30	1.80
1.70	15.00	15.00	15.10	15.60	0.30	0.45	0.65	1.60
1.75	10.10	10.20	10.30	11.10	0.50	0.70	1.15	2.65
1.80	5.75	6.60	6.90	8.10	1.35	2.10	2.80	4.85
1.85	2.65	3.75	4.85	5.60	3.15	4.20	4.85	7.25
1.90	1.25	1.80	2.35	3.75	6.45	7.35	8.20	10.25

Estimated volume total, Calls N/A Puts N/A
Previous day's open int: Calls 499 Puts 376

LONDON (LIFFE)

20-YEAR 12% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev.
Mar	123-16	123-28	123-19	123-09
Jun	123-06	123-25	123-05	123-00

Estimated Volume 14461(17622)
Previous day's open int. 27963(27408)

7-10 YEAR 9% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev.
Mar	97-30	98-05	97-30	97-26
Jun	97-20	97-31	97-26	97-16

Estimated Volume 221(0)
Previous day's open int. 460(8460)

5% NOTIONAL LONG TERM JAPANESE GOVT. BOND
Y100m 100ths of 100%

	Close	High	Low	Prev.
Jun	107.94	107.87	107.84	107.82
Sep	107.25	-	-	107.21

Estimated Volume 243(325)
Previous day's open int. 386(420)

THREE MONTH STERLING
£500,000 points of 100%

	Close	High	Low	Prev.
Mar	91.23	91.28	91.20	91.18
Jun	91.16	91.21	91.08	91.02
Sep	90.96	91.00	90.92	90.83
Dec	90.77	90.80	90.73	90.64

Est. Vol. (inc. figs. not shown) 12840(5048)
Previous day's open int. 34398(34800)

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev.
Mar	183.70	184.20	183.00	181.70
Jun	185.60	185.90	185.20	183.45

Estimated Volume 1149(1245)
Previous day's open int. 4379(4449)

THREE MONTH EURODOLLAR
$1m points of 100%

	Close	High	Low	Prev.
Mar	92.87	92.87	92.84	92.86
Jun	92.58	92.58	92.57	92.59
Sep	92.30	92.32	92.29	92.31
Dec	92.05	92.07	92.05	92.07

Est. Vol. (inc. figs. not shown) 2185(4846)
Previous day's open int. 20496(23620)

US TREASURY BONDS 8%
$100,000 32nds of 100%

	Close	High	Low	Prev.
Mar	93-17	93-16	93-09	93-12
Jun	92-15	92-14	92-07	92-10
Sep	91-17	-	-	91-12

Estimated Volume 2327(3967)
Previous day's open int. 7426(7361)

CURRENCY FUTURES

LIFFE-STERLING £25,000 $ per £

	Close	High	Low	Prev.
Mar	1.8493	-	-	1.8310
Jun	1.8320	-	-	1.8230
Sep	1.8322	-	-	-

Estimated Volume 0(7)
Previous day's open int. 260(54)

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.8545	1.8517	1.8457	1.8375	1.8234

IMM-STERLING $ per £

	Latest	High	Low	Prev.
Mar	1.8530	1.8545	1.8420	1.8460
Jun	1.8360	1.8370	1.8340	1.8300
Sep	1.8270	-	1.8270	1.8210

CHICAGO

U.S. TREASURY BONDS (CBT) 8%
$100,000 32nds of 100%

	Latest	High	Low	Prev.
Mar	93-14	93-15	93-09	93-13
Jun	92-12	92-13	92-06	92-10
Sep	91-12	91-13	91-07	91-10
Dec	90-14	90-14	90-13	90-13
Mar	89-19	89-19	89-19	89-18
Jun	-	-	-	88-25
Sep	88-03	88-04	88-03	88-02
Dec	-	-	-	87-13
Mar	-	-	-	86-26
Jun	-	-	-	86-09

U.S. TREASURY BILLS (IMM)
$1m points of 100%

	Latest	High	Low	Prev.
Mar	94.27	94.38	94.25	94.24
Jun	93.98	93.98	93.95	93.95
Sep	93.69	93.70	93.60	93.65
Dec	93.44	-	93.44	93.40
Mar	93.26	93.24	93.23	93.21
Jun	93.05	93.05	93.05	93.07

SWISS FRANC (IMM)
SFr 125,000 $ per SFr

	Latest	High	Low	Prev.
Mar	0.7300	0.7362	0.7305	0.7372
Jun	0.7445	0.7446	0.7440	0.7462
Sep	0.7525	0.7525	0.7525	0.7554

JAPANESE YEN (IMM)
Y12.5m $ per Y100

	Latest	High	Low	Prev.
Jun	0.7920	0.7922	0.7915	0.7941
Sep	0.7975	0.7978	0.7975	0.7999
Dec	0.8050	-	0.8050	0.8057
Mar	-	-	-	0.8115
Jun	-	-	-	-

DEUTSCHE MARK (IMM)
DM125,000 $ per DM

	Latest	High	Low	Prev.
Mar	0.6006	0.6062	0.6055	0.6081
Jun	0.6115	0.6115	0.6115	0.6119
Sep	-	-	-	0.6136

THREE-MONTH EURODOLLAR (IMM)
$1m points of 100%

	Latest	High	Low	Prev.
Jun	92.88	92.87	92.85	92.84
Sep	92.58	92.58	92.56	92.55
Dec	92.29	92.29	92.29	92.25
Mar	92.05	92.06	92.05	92.04
Jun	91.83	91.85	91.83	91.83
Sep	91.64	91.66	91.64	91.65
Dec	91.49	91.50	91.46	91.46

STANDARD & POORS 500 INDEX
$500 times index

	Latest	High	Low	Prev.
Mar	266.20	266.80	266.20	266.40
Jun	267.60	269.60	267.20	267.80
Sep	269.00	269.80	269.30	269.30
Dec	270.80	271.00	-	270.30

MONEY MARKETS

Little reaction

THERE WAS very little immediate reaction on the London money market to the Budget statement from the Chancellor yesterday.

Three-month interbank fell to 8$\frac{11}{16}$-8⅝ p.c. during the morning, but closed unchanged on the day, at 8¾-8$\frac{11}{16}$ p.c., as the market digested the economic news.

In general dealers did not appear to see any immediate change in UK bank base rates, following the Budget. Sterling was little changed immediately after, although this was largely the result of intervention by the Bank of England to sell the pound, on favourable overseas reaction. It was suggested within the market that the Budget would be regarded as broadly neutral, as far as interest rates are concerned.

UK clearing bank base lending rate 9 per cent from February 2

The Bank of England initially forecast a money market shortage of £750m, but revised this to £800m at noon, and to £850m in the afternoon. Total help of £463m was provided.

The authorities did not operate in the market before lunch, but in the afternoon bought £143m bills, by way of £21m Treasury bills in band 1 at 8⅞ p.c.; £118m bank bills in band 1 at 8⅞ p.c.; and £4m bank bills in band 2 at 8⅞ p.c.

Late assistance of £320m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £278m, with Exchequer transactions absorbing £460m, and bank balances below target £50m.

The Bank of England set a rate of 8$\frac{11}{16}$ p.c. on funds rolled over until the temporary facilities expire on March 28. This was yesterday's mid-market rate for 13 days. The money was first provided in mid-January, to help the market through a period of seasonal tightness.

In New York the Federal Reserve added reserves to the banking system, via $1.5bn of customer repurchase agreements, when Federal funds were trading at 6$\frac{9}{16}$ p.c., compared with 6¾ p.c. at the opening, and an average of 6.70 on Monday.

In Frankfurt call money was steady at 3.30 p.c. Tax payments, on behalf of corporate customers began on Monday, but have so far not drawn large amounts of money from the market. This factor is expected to slowly tighten credit conditions this week however, which may lead the Bundesbank to provide liquidity through state owned banks.

FT LONDON INTERBANK FIXING

(11.00 a.m. Mar 15)	3 months US dollars		6 months US Dollars	
	bid 6⅞	offer 6⅞	bid 6⅞	offer 7

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

		Treasury Bills and Bonds	
Prime rate	[illegible]	One month	[illegible]
Broker loan rate	[illegible]	Two month	[illegible]
Fed.funds	[illegible]	Three month	[illegible]
Fed.funds at intervention	[illegible]	Six month	[illegible]
		One year	[illegible]
		Two year	[illegible]
		Three year	[illegible]
		Four year	[illegible]
		Five year	[illegible]
		10-year	[illegible]
		30-year	[illegible]

Mar.15	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

Mar.15	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Interbank Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Mkt Deps	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Company Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finance House Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fine Trade Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dollar CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Dep Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Dep Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Dep Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Dep Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Treasury Bills (sell); one-month [illegible] per cent; three months [illegible] per cent; Bank Bills (sell); one-month [illegible] per cent; three months [illegible] per cent. ECGD Fixed Rate Sterling Export Finance. Make up day February 29, 1988. Agreed rates for period March 26, 1988 to April 25, 1988, Scheme I: [illegible] p.c. Schemes II & III: [illegible] p.c. Reference rate for period Jan 30, 1988 to February 29, 1988, Scheme IV: [illegible] p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance House Base Rate [illegible] from March 1, 1988. Bank Deposit Rates for sums at seven days' notice [illegible] per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month [illegible] per cent; one-three months [illegible] per cent; three-six months [illegible] per cent; six-nine months [illegible] per cent; nine-12 months [illegible] per cent. Under £100,000 [illegible] per cent from Jan 26, 1988. Deposits withdrawn for cash 5.00 per cent.

EUROPEAN OPTIONS EXCHANGE

Series		Vol	Last	Vol	Last	Vol	Last	Stock
[illegible]								
NEDLLOYD C	Fl. 200	40	6.50	2	15	10	21	Fl. 196.50
NEDLLOYD P	Fl. 150	15	1 A	17	3.50	-	-	Fl. 196.50
NAT.NED. C	Fl. 60	186	1.70	697	2.80 B	20	3.60 B	Fl. 59
NAT NED P	Fl. 55	15	1	27	2.80	2	4	Fl. 59
PHILIPS C	Fl. 27.50	164	2	35	2.70	18	3.50	Fl. 29.20
PHILIPS P	Fl. 30	39	2.60	3	3.40	121	3.90	Fl. 29.20
ROYAL DUTCH C	Fl. 220	781	5	168	7.10	3	9	Fl. 220.80
ROYAL DUTCH P	Fl. 210	397	1.70	78	7.70	5	12.50 A	Fl. 220.80
ROBECO C	Fl. 90	-	-	10	9	-	-	Fl. 90
UNILEVER C	Fl. 130	26	0.40	408	1.60	-	-	Fl. 115
UNILEVER P	Fl. 120	4	7 A	360	11	5	12.50	Fl. 115

TOTAL VOLUME IN CONTRACTS : 21,887

A=Ask B=Bid C=Call P=Put

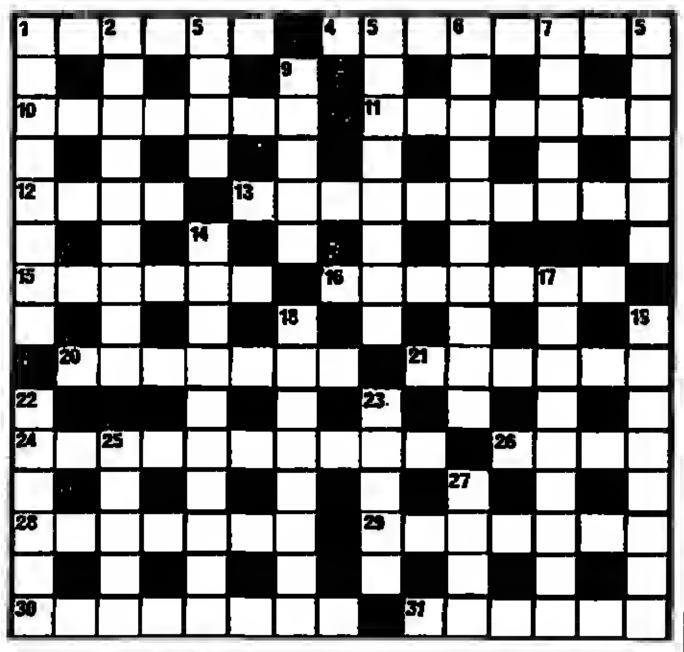
BASE LENDING RATES

	%		%		%
ABN Bank	9	Citibank NA	9	Nat Bk. of Kuwait	9
Adam & Company	9	City Merchants Bank	9	NatWestminster	9
AAB - Allied Arab Bk	9	Clydesdale Bank	9	Northern Bank Ltd	9
Allied Irish Bank	9	Comm. Bk. N. East	9	Norwich Gen. Trust	9
American Exp. Bk	9	Consolidated Cred	9	PK Finans. Intl(UK)	9½
Henry Ansbacher	9	Co-operative Bank	*9	Provincial Bank PLC	10
ANZ Banking Group	9	Cyprus Popular Bk	9	R. Raphael & Sons	9
Associates Cap Corp	10	Dunbar Bank PLC	9	Roxburghe G'rantee	10
Authority Bank	9	Duncan Lawrie	9	Royal Bk of Scotland	9
B & C Merchant Bank	9	Equatorial Bank plc	9	Royal Trust Bank	9
Banco de Bilbao	9	Exeter Trust Ltd	9½	Smith & Williamson Secs.	9
Bank Hapoalim	9	Financial & Gen. Sec.	9	Standard Chartered	9
Bank Leumi (UK)	9	First Nat. Sec. Ltd.	9½	TSB	9
Bank Credit & Comm.	9	● Robert Fleming & Co.	9	UDT Mortgage Exp	‡10.2
Bank of Cyprus	9	Robert Fraser & Ptrs.	10	United Bk of Kuwait	9
Bank of Ireland	9	Girobank	9	United Mizrahi Bank	9
Bank of India	9	Grindlays Bank	9	Unity Trust Bank Plc	9
Bank of Scotland	9	● Guinness Mahon	9	Western Trust	9
Banque Belge Ltd	9	HFC Trust & Savings	9	Westpac Bank Corp.	9
Barclays Bank	9	● Hambros Bank	9	Whiteaway Laidlaw	9½
Benchmark Bank PLC	9	Heritable & Gen Inv Bk	9	Yorkshire Bank	9
Berliner Bank AG	9	● Hill Samuel	§9		
Brit Bk of Mid East	9	C. Hoare & Co.	9		
● Brown Shipley	9	Hongkong & Shangh	9		
Business Mtge Tst	9	Lloyds Bank	9		
CL Bank Nederland	9	Meghraj Bank Ltd	9		
Central Capital	9	Midland Bank	9		
● Charterhouse Bank	9	● Morgan Grenfell	9		
		Mount Bnkg Corp.	9		

● Members of the Accepting Houses Committee. * 7 day deposits 4.00% Savewise 6.66%. Top Tier-£2,500+ at 3 months' notice 8.31%. At call when £10,000+ remains deposited. ‡ Mortgage base rate. § Demand deposit 4.00%. Mortgage 9.625% - 10%

FT CROSSWORD No.6,582

SET BY VIXEN



ACROSS

1 Settle where plain clothes men are to enter the river (6)
4 A rep's due to make a change - move (8)
10 The person using a credit card to get a horse? (7)
11 Accomplishment put to the best advantage (7)
12 Maidenhead - ancient town (4)
13 By no means a second-rate seaman! (10)
15 See to turning it on for the wash (6)
16 Chair or soft settle (7)
20 A portion of food for being of some assistance (7)
21 The dealer's a little schemer - certain to hoodwink people (6)
24 A warning may be given at midi (noon) (10)
26 Many got out of sight when reprimanded (4)
28 A *building* chap no-one's backing (7)
29 Used and worn and should be replaced (5,2)
30 A memo to do with a bodyguard (8)
31 A little girl's story about a donkey (6)

DOWN

1 Numbers being cut back including a graduate (8)
2 She's a great deal in the car unfortunately (9)
3 Turns over rented accommodation (4)
5 Setting the first mate right about carrying a doctor always (8)
6 Drink under stress, so get put down (10)
7 Beautify and/or make up (5)
8 The whole country absorbs preservationists (6)
9 Butterfly guard (5)
14 Protocol for the meeting (10)
17 Workers in the main wear rings (4-5)
18 Brown's been put inside since crooked, and that's a case in point (8)
19 Belief of key communist in French establishment (8)
22 "That age is best which is the first, when youth and blood are —" (Herrick)(6)
23 Alcoholic liquor for churchman appearing in play (5)
25 A note which can be read in two ways (5)
27 A long tale told in bars - a garbled tale (4)

Solution to Puzzle No.6,581

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

FT UNIT TRUST INFORMATION SERVICE

Scimitar Asset Management Ltd
8 Crosby Sq, London EC3A 6AQ 01-588 6993/4/5

Scimitar Global Gth Ac.	29.2	31.1	+0.1	–
Do Income	29.8	30.9	+0.1	0.19
Scimitar European Acc.	20.9	22.3		–
Do Income	20.9	22.3	+0.1	0.11
Scimitar UK Eq Inc Acc.	36.4	38.4	+0.3	–
Do Income	34.0	35.2xd	+0.2	5.38
UK Cap Gth Acc.	25.2	26.6	+0.4	0.75
Scimitar Pac Basin Acc.	29.8	31.8		–
Scimitar Mngd Exempt	141.6	147.5xd	+1.0	–

Scottish Equitable Fund Mgrs. Ltd(z)
28 St Andrews Sq, Edinburgh 031-558 1051

Intnl Income Units	129.2	137.4	+0.4	3.38
Intnl Accum Units	197.5	210.1	+0.1	3.38
UK General Acc.	38.9	41.6	+0.3	3.38
UK General Inc.	37.4	40.0	+0.4	3.38
American	27.5	29.4	+0.2	2.15
European	34.3	36.7	+0.1	1.26
Japan	55.9	57.8	–0.1	0.05
Technology	35.3	37.8xd	+0.2	2.29
Performance Trusts				
Far East Perf Tst	18.3	19.6	–	2.00
High Inc Perf Tst Inc.	24.5	26.2	+0.2	5.36
High Inc Perf Tst Acc.	25.1	26.8	+0.3	5.36
Worldwide Tact Perf Tst	30.5	33.5	+0.2	2.71

Scottish Life Investments(z)
19 St Andrew Sq, Edinburgh 031-225 2211

Nelson (UK)	215.1	230.1	–3.4	2.6
Columbus (US)	129.5	138.6	+0.8	1.31
Marco Polo (Pac)	210.2	224.9	–0.5	0.24
Da Vinci (Eur)	221.9	237.4	+0.5	1.70
Drake (Ww)	53.2	57.0	+0.3	2.69

Scottish Mutual Investment Managers Ltd
109 St Vincent St, Glasgow G2 5HN 041-248 6100

UK Equity	207.4	220.7	+2.0	2.67
UK Smllr Cos. Equity	213.2	226.9	+1.5	1.09
UK Special Situations	61.6	65.6	+0.5	3.50
Income Plus	52.9	56.3	+0.1	5.60
European	160.0	170.3	+0.6	1.42
Far Eastern	51.7	55.1	–0.2	1.84
Japanese	53.3	56.8	+0.2	–
North American	112.8	119.2	+0.6	1.22
International Growth	107.1	114.0	+0.5	1.13
Worldwide Venture	53.3	56.8	+0.3	3.34

Trades Union Unit Trust Managers
100 Wood Street, London EC2 01-628 4358

TUUT Mar 1	212.5	225.7xd		3.22

Tritan Fd Mngrs. Ltd.
Royal Lds. Hse. Colchester CO1 1RA 0206 764400

Tritan General	149.8	160.3	–2.3	1.54

Tyndall Unit Trust Managers Limited
25 Bucklersbury, London EC4N 248 3399

Convertible & General	59.5	63.2	+0.3	6.30
Accum Units	61.2	65.0	+0.3	–
Income	81.5	86.5	+0.7	4.33
Accum Units	81.5	86.5	+0.7	–
Smaller Co's	84.6	89.5xd	+0.4	1.81
Accum Units	85.4	90.5	+0.4	–
UK Growth	86.7	91.9xd	+0.9	2.20
Accum Units	87.9	93.1	–0.9	–
Pacific Gold Tst Acc.	47.6	50.5	–	–

UK Unit Trust Managers Ltd
Worthing Road, Horsham, RH12 1SL 0403 40032

British Growth Fd.	60.8	64.7	+0.3	1.65
Technical Analysis Fd.	51.7	55.0	+0.2	3.30

Unit Trust Account & Mngt. Ltd
20 Copthall Ave, London, EC2R 7DA 01-588 6064
Advisers. Henderson Crosthwaite Ltd

Friars Hse Cap Fd	179.6	191.1	–	1.99
Friars Hse Inc Fd	154.0	162.1	–	5.35

United Charities Unit Trusts(a)(c)(g)
Unicorn Hse, 252 Romford Rd, E7 01-534 5544

United Charities	173.2	184.7	+1.5	4.54

Vanguard Trust Managers Ltd (z)
66 Holborn Viaduct, London EC1A 2EU 01-236 3053
Dealing Line: 01-236 2468

Glenfriars	181.7	193.3xd	–	1.48
(Accum Units)	185.8	197.7	–	1.48
Far East & Gen.	53.6	57.0	+0.3	–
(Accum Units)	53.6	57.0	+0.3	–
Manor Portfolio	64.347	68.048	+0.225	3.15
(Accum Units)	66.185	69.955	+0.230	3.15
American & Gen.	55.7	59.3	+0.7	1.91
(Accum Units)	56.5	60.1	+0.7	1.91
Growth	212.2	226.7xd	+1.2	1.94
(Accum Units)	318.5	338.8	+1.2	1.94
High Yield	270.0	287.2	+0.1	4.45
(Accum Units)	289.6	308.1	+0.1	4.45
Special Sits	52.5	55.9	+0.3	1.89

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Phoenix Assurance Co Ltd
Phoenix House, Redcliff Hill, Bristol 0272 294941

Life Assurance Funds				
Wealth Assoc.	380 7	400 9	—	—
Eb'r Ph Eq.	324.0	337.6	—	—
Pension Plan Funds				
Phoenix				
UK Equity Acc.	168.3	177.1	+2.8	—
International Acc.	126 6	133.2	+1.3	—
Property Acc.	125.5	132.1	—	—
Fixed Interest Acc.	156 6	164.8	+0.4	—
Money Acc.	137 1	144.3	—	—
Bldg. Soc. Link Acc.	134.2	141.2	—	—
Special Mnged. Acc. Q	148.2	155.9	+1.6	—
Phoenix/Framlington				
Intnl Growth Acc.	88.0	92.6	−0 4	—
Amer. & Gen Acc.	80 8	85 0	−1 0	—
Capital Tst. Acc.	175.8	185.0	+0.5	—
Japan & Gen Acc	179 0	188 4	+3.7	—
American Turn. Acc.	83.3	87.6	+0 4	—
Recovery Tst. Acc.	172.0	181.0	+0.3	—
Special Mngd Acc.	143.4	150.9	+0.3	—
Phoenix/GT				
International Acc.	120 0	126.3	−0.6	—
US & General Acc.	89.3	93.9	−0.5	—
Amer Spec Sits Acc.	64 4	67 7	+0 8	—
Japan & General Acc.	171 0	180 0	−1 9	—
Far East & Gen. Acc.	134.5	141.5	+0 9	—
UK Capital Acc	172.4	181.4	−0.5	—
European Acc.	132 7	139 6	−1.8	—
Special Mngd Acc.	124.3	131.0	−0.4	—

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655

Managed Fund	266.0	280.1	—	—
Man Pens Inc & Cap Fds	340 1	358.1	—	—
Money Fund	111.5	117 4	—	—
Pens Mngd Fd (Init)	85.3	89.8	—	—
Pens Mngd Fd (Acc)	96 0	101.1	—	—
Pens FT30 Fd (Init)	129 6	136.5	—	—
Pens FT30 Fd (Acc)	195.0	153.5	—	—
Pens O'seas MgF (Init)	56.7	59 7	—	—
Pens O'seas MgF (Acc)	63 8	67.2	—	—
Pens Fxd Int Fd (Init)	105.2	110 8	—	—
Pens Fxd Int Fd (Acc)	118 4	124.7	—	—
Pens Deposit Fd (Init)	100 9	106.3	—	—

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 01-405 9222

Prufund				
Managed Mar 9	197.9	206.2	—	—

Prudential Holborn Life Ltd
30 Old Burlington St, London W1X 1LB 01-439 3134

Managed Fd	439.1	462.3	+0.2	—
Equity Fd	899 6	947 0	+0.6	—
Intnl Fd	302.7	318.7	+1.7	—
Fixed Int. Fd	369.8	388.5	+1.0	—
Prop Fd	306.3	322.5	—	—
Cash Fd	234.8	247.2	—	—
Pacific Basin Fd	166.1	174.9	+0.9	—
North American Fd	125.4	132.1	+0.6	—
European Fd	129.2	136.1	+0.4	—
Holborn Balanced Grth Fd	100.5	105.8	+0.6	—
Holborn Strategic Grth Fd	99.2	104.5	+0.4	—

Prudential Holborn Pensions Ltd
30 Old Burlington St, London W1X 1LB 01-439 3134

Managed	470 0	494.8	+3.8	—
Equity	675.4	711 0	+6.6	—
Global Equity	192.2	202 4	+0.0	—
Fixed Interest	379 6	399 6	+1.8	—
Property	307.3	323 5	—	—
Cash	138.2	145.5	—	—
Index Linked Gilt	164.3	173 2	+0.3	—
Guaranteed	8.68	—	—	—
International Money	182.7	192.4	+0.1	—
North American Fd	55.9	58 9	+0.3	—
Japanese Fund	119 2	125.5	+0 7	—
European Fund	68.5	71.9	+0.2	—
Special Situations Fd.	95.6	100 7	−1.2	—
Communications Fund	80 5	84.8	+0.3	—
Smaller Cos Fund	100.8	106.2	+1.6	—

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH 01-405 9222

Discretry Mar 9	£123 98	127 53	—	—
Equity Fund Mar 9	£134.18	138.22	—	—
Intnl Fund Mar 9	£20.36	21.04	—	—

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1987/88 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
102¼	99	Exch 10½pc '88	100	.....	10.48	8.80
101	98	Treas 9¾pc Cv '88	100	+	9.75	8.70
98	93	Transport 3pc '78-88	98	+	3.03	6.67
101	98	Treas. 9½pc '88	100	+	9.47	8.84
105	101	Treas 11½pc 1989	102	+	11.24	8.80
102	97	Treas 9½pc Cnv 1989	100	+	9.44	8.85
96	89¼	Treas 3pc 1989	96	+	3.12	6.45
104½	99	Treas 10½pc 1989	101	+	10.31	8.89
103	98½	Exch 10pc 1989	101	+	9.86	8.89
105¼	100	Exch 11pc 1989	102	+	10.69	8.89
96	89	Treas 5pc 1986-89	96	+	5.20	7.54
108	99	Exch 10¼pc Cv '89	104	+	9.81	7.33
111	104	Treas 13pc 1990‡‡	106	+	12.17	8.88
106½	100	Exch 11pc 1990‡‡	103	+	10.62	8.87
110	103	Exch. 12¼pc 1990	106	+	11.74	8.94
92	84½	Treas. 3pc 1990	92	+	3.25	6.88
100	93	Treas 8¼pc 1987-90‡‡	99	+	8.34	8.80
102½	98	Treas. 8pc Cv 1990	102	+	7.84	7.03
105	97½	Treas. 10pc Cv 1990	102	+	9.78	8.99
91	81	Exch 2½pc 1990	89	.....	2.78	6.70
110½	102	Treas 11¾pc 1991	106	+	11.00	8.94
95	87¼	Funding 5¾pc '87-91‡‡	94	+	6.12	8.03
90	80¾	Treas. 3pc 1991	88	.....	3.38	7.06
110½	98½	Treas 10pc Cv '91‡‡	104	+	9.52	8.24
109½	101	Exch. 11pc 1991	105	+	[illegible]	9.00
99	91	Treas. 8pc 1991	97	+	[illegible]	8.92
116	107	Treas 12¾pc 1992‡‡	112	+	[illegible]	8.98
106	97	Treas 10pc 1992	103	+	[illegible]	8.97
99½	90	Treas. 8pc 1992‡‡	96	+	[illegible]	8.91
108	99½	Treas 10¼pc Cv 1992‡‡	105	+	[illegible]	9.02
86	79	Treas. 3pc 1992	84	–	[illegible]	7.10
115	105	Exch. 12¼pc '92	111	+	[illegible]	9.06
121	110	Exch 13½pc 1992	115	+	[illegible]	9.10

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS—Contd

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Contd

1987/88 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
42½	22⅛	TRW Inc. 62½c	27⅜	+⅞	h$1.60	–	3.2
37½	21	Tenneco $5	24⅞	+1⅛	$3.04	–	6.9
220	149½	Do. 10pcLn.Stk. 91-5	155	.....	10%	–	14.7
29⅜	15⅞	Texaco $6.25	24½	+⅛	$3.00	–	6.7
74⅞	36⅞	Time Inc. $1	49⅜	+⅞	$1.00	–	1.1
30⅝	13	Transamerica $1	19	+⅛	$1.84	–	5.3
14⅝	1⅛	Transworld Corp $5	961p	.....	20c	–	1.1
27⅝	12⅞	TRINOVA Corp.	18⅛	.....	56c	–	1.7
24⅞	12⅞	USX $1	13⅞	.....	$1.20	–	3.8
37⅜	16⅞	Utd. Technologies	22⅞	+⅛	$1.40	–	5.3
38⅝	25⅞	US West	28⅜	–⅛	$3.28	–	6.3
30½	17⅛	Waste Management $1	19⅞	.....	36c	–	1.0
51[illegible]	11⅝	Whirlpool $1	14⅞	+⅛	–	–	–
37[illegible]	16½	Woolworth $3½	24[illegible]	+½	$1.32	–	3.0

CANADIANS

1987/88 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
691p	220p	ABM Gold Corp	220p	–5	–	–	–
26⅛p	10p	Abbot Energy Corp.	17⅛	.....	–	–	–
10⅛	506p	Amer. Barrick Res.	11½	–⅛	–	–	–
141p	3½p	American Lightwave	3½	–⅛	–	–	–
122p	25p	Armeno	30p	+4½	–	–	–
117p	39½p	Augmitto Expln	52½	.....	–	–	–
19⅝	10⅛	Bk. Montreal	11⅞	.....	$2.00	–	7.4
10½	488p	Bk. Nova Scot.	574p	+9	72c	–	5.3
20⅝	13	BCE	16⅞	.....	$2.44	–	6.0
10⅞	511p	Bow Valley	606p	+2	40c	–	2.9
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Contd

ELECTRICALS

ENGINEERING

ENGINEERING—Contd

FOOD, GROCERIES, ETC.

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

INDUSTRIALS (Miscel.)—Contd.

INSURANCES

LONDON SHARE SERVICE

INSURANCES—Contd

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING — Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

High	Low	Stock	Price	+ or –	Div Net	Cvr	Y'ld Gr's	P/E
38	23	Norton Group 5p	26	+1	–	–	–	–
98	38	Oceca Gold IR 2p	38	......	–	–	–	–
48	33	Propeller 1p	45	+2	W	–	–	14.1
*82	13	Publishing Hldgs 5p	19	......	–	–	–	11.4
128	70	Seacon Hldgs	70	......	–	–	–	10.6
27	18	Stats Hldgs. 5p	25	......	–	–	–	63.9
4½	3	Swanyard Studios 1p	3	–⅛	–	–	–	17.1
230	200	Takare	218	......	h1.0	8.1	0.6	22.4
87	38	Theme Holdings	52	......	1.0	1.9	2.6	27.9
36	26	Tomorrows Leisure 20p	26	......	–	–	–	10.4
210	125	UPL Group 10p	125	......	L2.41	2.8	2.6	18.7
140	103	Unit Group	135	–2	R4.6	2.5	4.7	(9.7)
85	85	Video Tape Recording 5p	85	......	L2.3	2.3	3.7	12.2

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 27 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- ¶ Price at time of suspension
- §§ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend, cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

IRISH

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

A selection of Options traded is given on the London Stock Exchange Report Page

LONDON STOCK EXCHANGE

Account Dealing Dates

*First Dealings	Option Declarations	Last Dealings	Account Day
Feb 22	Mar 3	Mar 4	Mar 14
Mar 7	Mar 17	Mar 18	Mar 28
Mar 21	Apl 7	Apl 8	Apl 18

*New time dealings may take place from 9.00 am two business days earlier.

BUDGET '88

Gilt-edged fall sharply after Budget Speech but equities close higher again

THE INITIAL response in the London securities markets to the UK Budget Speech appeared to be one of approval, restrained by uncertainty over the the implications of some of the Chancellor's capital gains tax proposals.

The Budget brought the expected good news on tax cuts and a surplus on Public Sector Borrowing Requirement albeit giving little support to predictions of an early cut in UK base rates. But the Gilt-edged market was troubled by the size of the fiscal adjustment, which at £4bn was above expectations, and raised fears of overheating. The City also noted that Mr Lawson said little to lift the cloud over exchange rate policy.

The restructuring of capital gains tax raised concern since it could prompt selling by insurance companies of securities held since before April 1982.

The Budget was, however, welcomed by the market's macro-economists, who regard the substantial cuts in higher personal tax rates as very encouraging for further growth in the economy, and thus bullish for the equity market. The Chancellor's prediction of 3 pc growth this year was seen as a minimum figure, with some City analysts expecting nearer to 4 per cent by the year end. Such forecasts may revive worries of overheating, however.

After extending an early, confident performance, the equity market was standing a net 28 FT-SE points up on the day as the Chancellor warmed to his Budget theme. This gain was halved by profit-taking before the final spurt of buying which took market indices forward again.

The final calculation on the FT-SE 100 Index, at 5.30pm, showed a net gain on the day of 20.4 to 1839.9. The FT-SE now stands 166 points below its closing level on March 17 last year when Mr Lawson delivered his 1987 Budget Speech.

Both Gilts and equities saw some light selling as investors and analysts scanned the details of Mr Lawson's address to the House of Commons, which was twice interrupted by Parliamentary objections. But the final minutes of a trading session extended by half an hour found buyers returning across the board, especially in the brewing and retail share sectors.

Turnover of 408.8m shares on Seaq by 5.00pm was significantly high, since trading virtually died away between mid-morning and 3.30pm, when the Chancellor began his speech.

The turnround in the bond market, however, was more marked than in equities. Government bonds had moved up by about ¼ in early trading, and were encouraged both by a firm pound and by the Budget disclosure of a £3bn surplus on PSBR for 1987-88. However, the Speech was followed by foreign and domestic selling of Gilts, which ended with net falls of 1½ points at the long end.

Foreign selling of Gilts was reported at the very end of the session. This may have reflected disappointment with any Budget move to cut domestic rates, but the London market will be watching keenly this morning for the more considered view of the international funds towards the Budget proposals.

BP took a back seat in an oil sector more pre-occupied with the budget – which included changes in Petroleum Revenue Tax and the royalties system – than the recent burst of buying interest by the Kuwait Investment Office.

Turnover in BP "old" and "new" totalled 4.9m and 5.8m shares respectively, with the former unchanged at 270p and the latter a penny easier at 77p. Shell rose to £10½ helped by the BZW "buy" recommendation. Enterprise, preliminary figures due tomorrow, were 7 firmer at 357p and Ultramar 5 better at 259p. Calor Group featured with a surge to 574p before closing a net 15 higher at 568p ahead of details of the proposed demerger of the group into the liquified petroleum gas company and the new oil company. Silkolene jumped 17 to 280p; preliminary results are scheduled for next Wednesday with BZW forecasting £1.8m against last time's £0.8m. Charterhall were 25p ex–rights with the "new" nil–paid quoted at 10p.

London International Group came to life with a gain of 13 at 295p. Demand was mainly triggered by speculation that the company was about to sell off its Royal Worcester Spode China subsidiary via a management buy-out, while there was also talk of a possible American bid for the division.

Interest in LIG was also enlivened as the market awaited news of a lunch with Warburg Securities, the investment house, yesterday.

Trafalgar House came into the limelight, advancing strongly in active trading conditions (around 5.5m shares changed hands) to close 12 higher at 336p, after touching 344p.

Demand was prompted by reports of an upgrading by Cazenove together with a recommendation to switch out of Hanson into TH from Shearson Lehman, the investment house.

NatWest led a general advance by the top banks with the shares closing a net 14 up at 572p, after news of the deal with Banca March to acquire 84 per cent of Banca Asturias & Leon. Barclays moved up 9 to 492p while Midland put on 5 to 398p. Standard Chartered, where bid rumours swept the market last week, hardened 3 to 478p. Merchant banks made progress with Morgan Grenfell 3 harder at 278p ahead of tomorrow's preliminary figures. Hambros, after the recent "buy" recommendations, rose 2 to 289p.

The insurance sectors, badly hit in recent weeks by budget nerves, staged a strong revival towards the close in the absence of any significant tax changes. Lifes were major gainers. Abbey raced up to 270p before closing 6 up at 269p while Legals rose 14 to 287p, and London and Manchester 7½ to 277½p, after 279p. Pearl jumped 19 to 453p. Prudential gained 26 to 853p. Composites failed to retain good gains and closed only a shade better over the session.

The decision to increase excise duty on beer and wines by marginal amounts only and leave the tax on spirits unchanged was a tonic for the Brewery sector. Leading shares bounded higher, some by 10 or more, on an initial wave of buying enthusiasm but interest soon subsided and prices backtracked. Allied-Lyons rose to 379p before settling a net 6 dearer at 374p while Grand Metropolitan ended 7 up at 497p, after 502p. Guinness were finally only 3 better at 313p, after 319p, but Bass retained their upward momentum to finish 15 higher at 853p. Recently-strong Scottish & Newcastle ran into a chunky early seller and were ruled out of the late surge, closing 6 down at 272p. Quoted Distillery issues made a token response with Invergordon hardening 3 to 208p.

The Building sector displayed useful gains, particularly housebuilders which made progress on hopes of a cut shortly in interest rates. Tarmac led the field, rising 11 to 254p, while lesser lights such as Federated Housing and Berkeley Group both gained 16 to 290p and 337p respectively. Charles Church firmed 6 to 135p and Persimmon 5 to 178p. The Chancellor's assertion that the home improvement loan system had been abused brought a sharp reaction in DIY concerns such as Magnet, which reacted from an initially firm level of 244p to close 8 lower at 232p and Marley, down 5 at 155p. Elsewhere, Walter Lawrence rose 10 to 154p following talk of a recommendation from brokers Gilbert Elliott Turriff moved up 11 to 315p in a restricted market.

ICI shrugged aside currency influences and rose to £10⅝, prior to closing ½ higher at £10½. Leigh Interests gained 18 to 219p on news that Caird Group had acquired a 5.47 per cent shareholding. Yule Catto spurted 8 to 123p and Alida, responding to stake news and recent figures, added 5 more at 315p.

The absence of any VAT impositions on newspapers and books was greeted by a sigh of relief by dealers in WH Smith, John Menzies and Pentos, all of which have suffered during the past couple of weeks from budget worries. WH Smith "A" jumped 12 to 305p, John Menzies 13 to 373p and Pentos 6 to 123p.

The rest of the retailing sector held on to most of their earlier gains reflecting overall satisfaction with the tax cuts. Burton Group, reporting interims on Tuesday, added 10 at 263p, Marks and Spencer, after announcing the appointment of new chief executive Mr. R. Greenbury, added 2 at 183p and Next put on 6 to 293p. Storehouse moved up 6 to 243p and Woolworths 4 to 293p.

The electricals sector mirrored the overall upturn in equities and generally closed well off the day's best levels.

British Telecom, where turnover remained at the recent high levels, settled 4½ up at 258p reflecting a continuing bear squeeze. But Cable & Wireless were hit by stories of competition in Hong Kong telecommunications and the shares fell back 8 to 338p. Minor improvements were recorded by GEC, 158p, Plessey, 164p and STC, 255p. Ferranti attracted another big turnover with the shares bought up to 87p before settling a net ½ up at 85½p; brokers were chasing the stock ahead of the forthcoming major presentation to analysts next Thursday week. The recent buy recommendations by at least two of the leading securities houses boosted Racal 5 more to 233p.

Kode International spurted 9 to 377p on the acquisition of SK Rentals ans SKR Computer for £2.2m cash and the stake alterations by the Prudential and TBS Services.

The Kevex saga took another twist as UEI pulled out of "friendly discussions" with the US group – UEI dipped 3 to 345p on the news – only for VG Instruments to reveal a $13 a share tender offer for Kevex. VG shares raced up 27 to 420p as the news was unveiled.

Engineers provided several noteworthy movements. McKechnie, a current favourite with Kleinwort Grievson, the securities house, were in demand and moved ahead to close 16 higher at 482p. Favourable comment on the preliminary figures enlivened fresh interest in Glynwed which improved 7 to 480p. Simon Engineering, scheduled to reveal annual results tomorrow, were supported and featured a gain of 14 at 290p. Rolls-Royce were actively traded (some 4.1m shares changed hands) before settling a couple of pence firmer at 133p. Christy Hunt edged up a penny to 52p following the disposal of the Hiram Wild division of Walter Lawrence to its management.

Food shares generally retained firmness, the imposition of tax on cereal bars seen as little more than a tidying up operation by the Chancellor with only negligible effect. United Biscuits fluctuated narrowly and closed virtually unchanged at 261½p awaiting today's preliminary figures when it is expected the company will announce the acquisition of Ross Foods from Hanson. Rowntree made further progress ahead of tomorrow's annual results to close 7 higher at 470p and Hillsdown gained a like amount at 297p. Tesco were boosted by traded option activity and gained 8 to 171p.

Trusthouse Forte rose 8 to 244p helped by favourable comment on the recommended offer for caterers Kennedy Brookes. Ladbroke gained 9 to 401p following a Phillips and Drew notereinforcing its recent buy recommendation.

Glaxo continued to make headway following a favourable response by analysts to the half-year figures, with the price improving afresh to around 1106p before settling a little below the best with a gain of 19 on the day at 1101p for a two day rise of 45p; around 1.9m shares changed hands yesterday.

Other international stocks traded firmly for most of the session but finally succumbed to the rise in sterling and closing gains were usually limited to a few pence on balance. Hanson were one of the more active counters (9.7m) but closed only a couple of pence dearer at 138½p.

Wolseley, reflecting favourable comment on the preliminary figures, moved ahead smartly to close 12 higher at 275p.

KRF, the commercial vehicle manufacturer, spurted higher on demand mainly from one broking house to close 18 up at 280p, but features elsewhere in the Motor sector were few. A comprehensive review by Kleinwort Grieveson, which concluded with a "buy" recommendation, failed to move Dowty to any great extent at 200p, while profit-taking brought Appleyard back 9 to 396p.

Reed International pulled out of the recent downturn as buyers were encouraged by the general firmness of leading equities. Before long speculation began to resurface of bid possibilities and the shares ended 7 up at 418p. Favourable newspaper comment aroused small support of EMAP, 2 harder at 202p, and selected Agency stocks also attracted attention. Awaiting the preliminary statement, Lowe Howard-Spink improved 3 further to 389p. KLP rose 7 to 292p while press mention brought minor gains in Abbott Mead Vickers, 238p, and Aspen Communications, 425p.

The Chancellor's decision to change the base date for Capital Gains Tax, brought forward from 1965 to 1982, came as a pleasant surprise to the established property companies and prices surged ahead after the news. Land Securities closed 19 higher at 531p and MEPC finished 18 up at 509p. Slough Estates gained 6 to 274p

Traded option contracts expanded to 34,112 comprising 20,250 calls and 13,862 puts. Rolls-Royce were by far the most active stock, recording 962 calls and 7,163 puts. Hanson registered 2,595 calls and 1,093 puts. The FTSE contract attracted 1,349 calls and 862 puts.

FINANCIAL TIMES STOCK INDICES

	Mar. 15	Mar. 14	Mar. 11	Mar. 10	Mar. 9	Year Ago	1987/88 High	1987/88 Low	Since Compilation High	Since Compilation Low
Government Secs	91.03	90.76	90.47	90.53	90.68	90.99	93.32 (8/5/87)	83.73 (19/10/87)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	97.47	97.21	97.28	97.12	97.11	96.42	99.12 (15/6/87)	90.23 (2/1/87)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ▼	1470.4	1460.0	1449.9	1472.3	1460.1	1586.9	1926.2 (16/7/87)	1232.0 (9/11/87)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	243.0	245.3	248.6	249.7	248.0	341.4	497.5 (4/8/87)	234.0 (29/2/88)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.41	4.44	4.45	4.38	4.41	3.68				
Earnings Yld. % (full)	11.23	11.30	11.35	11.17	11.27	8.53				
P/E Ratio (net)(*)	10.86	10.79	10.75	10.92	10.83	14.37				
SEAQ Bargains (5pm)	27,409	27,592	29,674	28,632	27,697	39,866				
Equity Turnover (£m)	-	1076.66	1702.47	1641.29	1361.37	1251.26				
Equity Bargains	-	31,423	34,309	31,899	32,280	53,698				
Shares Traded (ml)	-	425.3	654.0	536.0	448.1	486.9				

Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1467.6	1469.9	1469.5	1472.5	1472.7	1473.1	1472.9	1474.6

Day's High 1480.5 Day's low 1467.4

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, S E Activity 1974. * Nil=10.75.

S.E ACTIVITY

Indices	Mar.14	Mar.11
Gilt Edged Bargains	150.8	118.7
Equity Bargains	203.6	222.3
Equity Value	2176.2	3441.1
5-Day average		
Gilt Edged Bargains	138.1	135.7
Equity Bargains	210.4	217.3
Equity Value	2733.2	2747.2

LONDON REPORT AND LATEST SHARE INDEX: TEL. 0898 123001

Traditional Options

- First dealings Mar 14
- Last dealings Mar 25
- Last declarations June 16
- For Settlement June 27

For rate indications see end of London Share Service

Dealers reported an increase in activity in the Traditional option market. Stocks to attract money for the call included Ferranti, Norfolk Capital, Eagle Trust, Inoco, Dares Estates, Owners Abroad, Charterhall, Control Securities, Cambridge Instrument, Ladbroke, Eurotunnel, Premier Consolidated, EBC, Stormgard, Benlox, Plessey, Filofax, Raglan and Blue Arrow. A put option was arranged in Scantronic, but no doubles were reported.

NEW HIGHS AND LOWS FOR 1987/88

NEW HIGHS (14).

BRITISH FUNDS (4) Treas. 3pc '78-88, Treas. 8pc Cv 1990, Treas. 8½pc "C" 1987, Treas. 2pc I.L. '96, CANADIANS (1) Tara Pure Tech., BUILDINGS (2) Hatfield Estates, Persimmon, HOTELS (2) Intl Enterprises, Savoy "A", INDUSTRIALS (1) Thomson T-Line, LEISURE (1) Good, Media, MOTORS (1) ERF (Hldgs), PROPERTY (1) Helical Bar 5.25pc, TEXTILES (1) Richards.

NEW LOWS (6).

ENGINEERING (1), TACE, INDUSTRIALS (1) Lodge Care, TRUSTS (1) Parrish, PLANTATIONS (1) Grand Central.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

[illegible]

RISES AND FALLS YESTERDAY

[illegible]

FT – ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Figures in parentheses show number of stocks per section

Tuesday March 15 1988

[illegible]

FIXED INTEREST

[illegible]

LONDON TRADED OPTIONS

[illegible]

March 15 Total Contracts 34,112 Calls 20,250 Puts 13,862

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

"RIGHTS" OFFERS

[illegible]

WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | GERMANY | ITALY | NETHERLANDS | NORWAY | SPAIN | SWEDEN | SWITZERLAND | AUSTRALIA | HONG KONG | SINGAPORE | SOUTH AFRICA | JAPAN

[illegible]

CANADA

TORONTO
Prices at 2.30pm March 15

[illegible]

MONTREAL
Closing prices March 14

[illegible]

Total Sales [illegible] shares

OVER-THE-COUNTER *Nasdaq national market, 2.30pm prices*

Continued from Page 49

[illegible]

CHIEF LONDON PRICE CHANGES YESTERDAY

(Prices in pence unless otherwise indicated)

RISES		
Argyle Trust	79	+ 7
Bass	853	+ 15
Berkeley Group	336	+ 15
Calor Group	370	+ 17
ERF	290	+ 17
Fed. Housing	290	+ 17
Glaxo	£10½	+ ½
Kode Intl.	377	+ 9
Ladbroke	443	+ 8
Land Securities	531	+ 16
Lawrence (W.)	155	+ 11
Legal & General	280	+ 7
Leigh Ints.	218	+ 17
London Intl.	294	+ 12
McKechnie	341	+ 15
Menzies(J.)	373	+ 13
NatWest Bank	570	+ 17
Reed Intl.	418	+ 7
Simon Eng.	289	+ 13
Smith (W.H.) A	302	+ 16
Tarmac	254	+ 11
Tesco	189	+ 8
Tiphook	336	+ 8
Trusthouse Forte	244	+ 6
V.G. Instruments	420	+ 27
Wolseley	276	+ 13
FALLS		
Appleyard	396	− 9
Magnet	233	− 7
Marley	155	− 5
Scott. & Newcastle	272	− 5

TOKYO – Most Active Stocks
Tuesday, March 15, 1988

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	329.42m	469	+15
Sumitomo Metal	151.72m	373	+20
Kawasaki Steel	138.99m	411	+14
Nippon Kokan	137.62m	399	+15
Ishikawajima-Harima Heavy Indus.	80.85m	586	+36

[illegible]

INDICES

NEW YORK — DOW JONES

	Mar. 14	Mar. 11	Mar. 10	Mar. 9	1987-88 High	1987-88 Low	Since compilation High	Since compilation Low
φIndustrials	2050.07	2034.98	2026.03	2074.27	2722.42 (25/8/87)	1738.42 (19/10/87)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	90.61	90.50	90.39	90.60	95.51 (19/10/87)	81.26 (9/2/87)	—	—
Transport	849.05	847.12	841.19	858.24	1101.16 (14/8/87)	661.00 (4/12/87)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	177.34	176.51	178.11	179.94	227.83 (22/1/87)	160.98 (19/10/87)	227.83 (22/1/87)	10.50 (8/4/32)

φDay's High 2056.7 (2049.07) Low 2023.04 (1996.52)

STANDARD AND POOR'S	Mar. 14	Mar. 11	Mar. 10	Mar. 9	High	Low	High	Low
Composite‡	266.37	264.94	263.84	269.06	336.77 (25/8/87)	223.92 (4/12/87)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	309.21	307.39	306.25	312.46	393.17 (25/8/87)	255.43 (4/12/87)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	23.39	23.23	23.23	23.73	32.43 (25/8/87)	20.39 (7/12/87)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	150.06	149.45	148.92	151.48	187.99 (25/8/87)	125.91 (4/12/87)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. value	296.94	296.09	296.0	299.58	365.01 (13/8/87)	231.90 (4/12/87)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	376.67	375.48	376.76	380.28	455.28 (26/8/87)	291.90 (28/10/87)	455.28 (26/8/87)	54.87 (31/10/72)

	Mar. 10	Mar. 3	Feb. 26	year ago (approx.)
Dow Industrial Div. Yield	5.54	3.38	3.41	2.96
	Mar. 9	**Mar. 2**	**Feb. 24**	**year ago (approx.)**
S & P Industrial div. yield	2.93	2.96	2.99	2.58
S & P P/E ratio	15.41	15.13	14.92	20.82

TRADING ACTIVITY †Volume (Millions)

	Mar. 14	Mar. 11	Mar. 10
New York	132.334	200.020	198.644
Amex	8.450	13.459	18.080
OTC	108.112	126.597	160.230

NEW YORK	Mar. 14	Mar. 11	Mar. 10
Issues Traded	1,955	1,996	1,982
Rises	728	856	413
Falls	793	676	1198
Unchanged	434	464	371
New Highs	12	5	23
New Lows	6	4	5

CANADA

TORONTO	Mar. 14	Mar. 11	Mar. 10	Mar. 9	1987-88 High	1987-88 Low
Metals & Minerals	2711.6	2719.8	2681.4	2772.6	3907.5 (5/10/87)	1988.2 (2/1/87)
Composite	3315.9	3321.2	3315.7	3334.1	4112.9 (13/8/87)	2837.0 (28/10/87)
MONTREAL Portfolio	1652.4	1651.16	1647.44	1664.49	2224.77 (16/7/87)	1435.94 (26/10/87)

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
MFS Intermd	3,500,500	10	—
Grolier	3,341,000	24¼	+ 8½
Fed Dept Strs	2,118,200	66	—
Wendy's Intl	1,795,300	6½	− ⅛
Varity Corp	1,583,700	3	+ ⅛
Allegis	1,535,400	78¼	+ ½
Glaxo Hldgs	1,365,200	20¼	+ ¼
Monsanto	1,300,600	83¼	− 3¼
Firestone	1,223,100	61⅝	− ⅝
Phillips Pet	1,220,200	16¼	− ⅛

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 industrials plus 40 utilities, 40 Financials and 20 transports. (c) Closed. (u) Unavailable.

AUSTRALIA | AUSTRIA | BELGIUM | DENMARK | FINLAND | FRANCE | GERMANY | HONG KONG | ITALY | JAPAN | NETHERLANDS | NORWAY | SINGAPORE | SOUTH AFRICA | SPAIN | SWEDEN | SWITZERLAND | WORLD

[illegible]

** Saturday March 12: Japan Nikkei (c) - TSE (c)

Base values of all indices are 100 except Brussels SE – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Metals – 500; (c) Closed. (u) Unavailable.

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25⅝	14	AAR s	.36	1.5	21	196	23¼	22¾	23¼	+½
36⅛	21	AFG s	.16	.3	14	5185	32	31⅝	31⅞	−¼
27	10½	AGS s			15	326	17⅝	17	17⅝	+⅜
10½	5	AMCA				16	5¼	5¼	5¼	−⅛
9	3¼	AM Intl				1072	4½	4⅜	4½	+⅛
65½	28¾	AMR			13	7869	42¾	41½	41⅞	+⅞
27¼	24⅞	ANR pf 2.67		10.		75	26⅜	26¼	26⅜	−⅛
12¼	6⅜	ARX			9	436	8⅛	8⅞	8⅞	−⅛
73½	40⅛	ASA	3	6.4		594	47½	46⅞	47	−⅛
22⅜	9½	AVX			14	242	17⅜	17	17⅛	+⅜
67	40	AbtLab 1.20		2.5	18	5850	48⅝	48⅛	48⅝	+⅛
28	15⅝	Abitibi g				25	19½	19⅜	19⅜	−¼
16¾	9½	AcmeC .40		3.4		386	12	11⅝	11⅞	+⅛
10½	6⅞	AcmeE .32b		3.9	22	112	8¼	8⅛	8⅛	
20	14⅛	AdaEx 3.05e		19.		168	16¼	15⅞	16	−⅛
19½	9⅞	AdamM .24		1.9	19	75	12¾	12⅝	12⅝	
24⅞	7½	AMD				3545	12¾	12⅜	12½	
36¾	29¼	AMD pf	3	7.9		62	38	37½	38	+⅛
11⅞	4⅝	Adobe			14	663	8¼	8⅛	8¼	
20½	16¼	Adob pf 1.84		10.		2	18¼	18¼	18¼	−¼
21¾	17½	Adob pf 2.40		12.		60	20½	20⅜	20⅜	−¼
15	8⅛	Advest .12a		1.5	5	20	7¾	7⅝	7¾	+⅛
67⅞	43½	AetnLf 2.76		3.0	8	1926	45⅝	46⅛	46¼	
83½	41	AflPub .40		.7	35	849	62	60½	60⅝	−2⅛
28⅝	13	Ahmans .88		5.6	0	2828	15⅝	10	15¼	
6¼	1¾	Aileen				112	2⅜	2¼	2⅜	+¾
53⅞	29	AirPrd	1	2.2	14	1716	46⅝	46	46⅛	+¾
36	11⅛	AirbFrt .60		3.3	28	366	18	17¾	18	
16½	8¾	Airgas			18	152	14⅝	14⅛	14⅝	−⅜

Continued on Page 49

NYSE COMPOSITE CLOSING PRICES

Continued from Page 48

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
41½	18½	PerkEl .80		2.2		999	27½	27⅛	27¼	−⅛
8⅛	5⅛	Prmian.60e		10.	12	193	6	5¾	6¼	−⅛
19¾	6¾	PrLP pf1.16		13.		247	8¾	8½	8⅝	+⅛
15	5¼	PeryDr				403	8	7⅝	7¾	−⅛
40	14¼	Petrie .20		1.0	16	292	21½	20⅝	20¾	−⅜
21¼	15⅞	PetPar 2.06		10.	10	289	20½	20¼	20¾	−¼
33½	20½	PetRs 3.16e		13.		60	25¼	25	25¼	+¼
16	15	PetRs pf1.57		9.4		18	16⅞	16⅝	16⅝	−⅛
2⅞	⅜	Ptrinv .22e		16.		15	1⅜	1¼	1⅜	+⅛
76½	40	Pfizer 2		3.7	13	2799	55⅞	54	54¼	−1
58	23½	PhelpD .60		1.4	9	2111	42¼	31⅞	41½	−1
74	37	PhlpD pf 8		5.2		8	59	58	59	−⅜
23¾	16¾	PhilaEl 2.20		11.	6	1716	19⅝	19¼	19⅝	+⅛
45½	34	PhE pfA3.80		10.		z825	38	37	20	+⅞
97	69	PhE pfG8.75		10.		z460	84⅛	83¾	84½	+⅛
104⅞	86	PhE pfS9.50		10.		z100	92¼	92¼	92¼	
13¾	11	PhE pfR1.41		11.		26	12⅜	12¼	12⅜	
13	9⅞	PhE pfP1.33		11.		51	11⅞	11⅛	11⅞	+⅛
87½	65⅞	PhE pfH7.80		10.		z100	75½	75½	75½	+1⅛
12½	8¾	PhE pfO1.28		11.		51	11⅜	11⅛	11⅜	
117	108⅛	PhE pfM15.25		14.		z840	111	110	111	+1
102	79	PhE pfK9.50		10.		z540	92	90¼	92	+1¾
88	64	PhE pfJ7.56		11.		z20	73½	73½	73½	
83⅛	60	PhE pf7.75		10.		z100	74	74	74	+1
17¾	12⅛	PhilSub .94		5.9	14	22	16	15¾	16	+⅜
124⅛	77⅛	PhilMr 3.60		3.9	12	3299	92⅞	92¼	92½	+½
23⅞	12½	Philipln .44		2.1	14	995	21	20⅝	20¾	+¼
27⅞	12⅝	PhilGl .95e		6.4	7	1431	15⅝	15⅜	15⅜	−⅛
18¾	10	PhilPet .56		3.6	257	12414	16⅛	15⅞	16	−⅛
24¾	22⅝	PhlPt pf1.75e		7.3		32	23⅞	23¾	23⅞	
28½	7½	PhlVH s .26		2.2	8	92	13⅛	12⅞	13	+⅛
9⅝	2⅝	Phlcorp				20	5⅛	5	5	
18⅝	9	WolvTc .20		1.1	14	2989	18¼	18⅛	18¼	−⅛
14	7½	WolvrWd.39e		.2	14	239	12¼	12	12¼	+⅛
59⅝	28½	Whrth s1.32		2.9	12	3080	45⅞	44⅞	45¼	+1¼
9⅝	8	WrldCp				27	7⅛	7	7⅛	
19½	10⅞	WrldVl				33	14½	14⅜	14⅜	
82	39	Wrigly 1.04a		1.3	23	257	79	78½	78⅝	−⅜
3	¾	Wurltch				18	1	⅞	⅞	
17½	7	WyleL s .28		2.8	18	38	10¼	10	10	−⅛
30⅝	14½	Wynns .60		2.8	40	75	21⅝	21⅛	21⅛	+⅛
		X Y Z								
20	60	Xerox 3		5.3	11	1721	57⅞	56⅞	57⅛	−⅜
56⅛	52⅜	Xerox pf5.45		10.		5	52½	52⅜	52½	+⅛
34⅜	18⅞	XTRA .64		2.0	16	51	32½	32¼	32¼	−⅜
29½	19⅝	XTRA pf1.94		6.9		1	28	28	28	−⅛
36¾	17⅛	Yorkln			10	160	28⅞	28½	28½	−⅜
7¼	2¼	Zapata				284	3½	3¼	3¼	−¼
57	13½	Zayre .40		1.9	18	2904	21⅝	20¾	21⅛	−¼
16⅛	8⅝	Zemex .40		3.7	14	2	10¾	10¾	10¾	−⅛
33⅝	16	ZenithE				1864	17¾	17¼	17⅜	
13½	2⅛	ZenLab				383	5	2⅞	2⅞	
24	13½	ZenNtl .80		4.3	9	152	18¾	18½	18½	−⅜
20⅝	11⅝	Zero .36		2.5	15	377	14⅝	14⅛	14¼	−⅛
30¾	16	Zurnin s .80		3.0	15	100	22⅞	22¼	22½	+⅛
10⅝	7⅝	Zweig 1.05e		11.		612	10	9⅞	10	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

OVER-THE-COUNTER

Nasdaq national market, 2.30pm prices

Stock	Sales (Hds)	High	Low	Last	Chng
[illegible]					

Continued on Page 47

AMERICA

Caution sets in as investors await key US statistics

Wall Street

ANTICIPATION of tomorrow's US trade figures had both bond and equity markets in its grip and movements yesterday were again extremely limited, *writes Janet Bush in New York.*

At 1pm, the Dow Jones Industrial Average stood very little changed from Monday's close and was quoted 3.98 down at 2,046.09. Activity was very subdued and only about 70m shares had changed hands.

The story was similar on the US Treasury bond market where prices have moved little since the ¾ point rally last Friday on encouraging producer prices figures.

On Monday, prices had shown a generally weaker bias while yesterday there was a marginal improvement across the maturity spectrum. At midsession, the Treasury's benchmark 2008/2017 8.875 per cent issue was quoted 1/32 point higher to yield 8.51 per cent.

There was little news to motivate trading and the testimony of Mr Alan Greenspan, Fed Chairman, to the joint economic committee of Congress, seemed to hava little impact on markets. The main points of his testimony were that, while monetary policy needed to remain supportive of growth, it was also necessary to be alert to the possibility of a re-emergence of inflation. He said he viewed the economic outlook as satisfactory but not without risks. He added thet he thought the decision by the British Government to yield to upward pressure on sterling was correct.

Yesterday's British Budget announcement had no perceived impact on US financial markets.

Tha equity market remains generally directionless. There is an extreme sense of caution at curreot levels near post-crash highs and there is some residual nervousness after the drop of over 48 points last Thursday.

That event was partly attributed to the onwinding of positions prior to this week's triple witching hour when stock index, options and futures contracts expire simultaneously.

Coca-Cola dipped $¼ to $38⅝. The company annonnced it would record a $51m non-cash equity loss in the first quarter.

Firestone Tire & Rubber gained $1⅛ to $62¾. Its board met to conduct a preliminary review of Pirelli's unsolicited tender offer and said it would announce a decision no later than Friday.

Compugraphic, the compnter and phototypesetting company, rose $1⅜ to $25¼ after news that it had agreed to a proposal from Agfa-Gevaert Graphics to buy Compugraphics outstanding shares for $27 each.

Shoney's South, the restaurant chain, slipped $⅛ to $14¼. Members of its management and two Citicorp affiliates said they had agreed to make a $14-a-share cash bid for the company.

Certain-teed, a manufacturer of building materials and fibre glass, rose $1⅝ to $47⅛ after Compagnie de Saint-Gobain said it was increasing its tender offer for the outstanding shares from $41 to $47.50 a share. The French company already owns a 57.1 per cent stake in Certain-teed.

Canada

DECLINING golds, energy issues and industrials pulled the market lower in Toronto, with the midsession composite index off 7.6 at 3,306.4.

Among golds, American Barrick slipped C$¼ to C$25¾.

ASIA

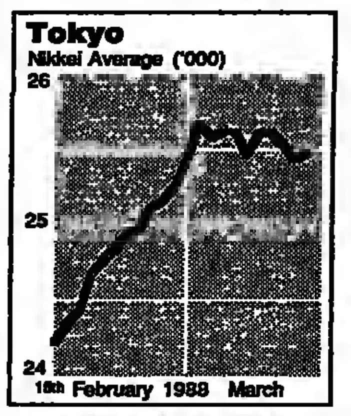
Large-capital steels give boost as volume rebounds

Tokyo

LATE bnying of giant-capital steels and shipbuildings gave share prices a boost in Tokyo yesterday, with volume rebounding to the levels of late last week, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average ended 42.16 higher at 25,475.87 after fluctuating between 25,339.74 and 25,479.59. Volume swelled from the previous day's 964m to 1.64bn shares. Declines slightly outnumbered advances by 469 to 441, with 148 issues unchanged.

Tha market had a weak start with investors still worried about precariously high prices and concentrated trading of large-capitals. Bnt it rebounded towards the close on the strength of heavy purchases of steels, shipbuildings and utilities.



The rapid late recovery followed animated buying by *Tokkin* specified money trusts and fund trusts, which, according to some brokers, was designed to raise the prices of stocks they hold ahead of the March settlement of accounts. Individuals stepped up buying on expectations that heavy purchases by *Tokkin* and other funds would push up the market, they said.

Giant-capitals continned to dominate the list of the 10 most active stocks – accounting for 68.6 per cent of overall turnover compared with Monday's 58.3 per cent – with their prices hitting all-time highs.

Nippon Steel topped the active list, with 329.4m shares traded, or 20 per cent of the market's total turnover. It firmed Y15 to Y469. Second busiest was Sumitomo Metal Indnstries with 151.7m shares, gaining Y20 to Y373. Kawasaki Steel, third with 129m shares, strengthened Y14 to Y411. Among other giant-capital gainers, Mitsubishi Electric added Y9 to Y700.

Utilities were in demand, with Tokyo Gas rising Y50 to Y1,230 and Tokyo Electric Power Y340 to Y6,150.

Blue-chip stocks were hit by tha yen's renewed rise against the US dollar, except for Nippon Telegraph and Telephone, which put on Y100,000 to Y2.46m. Matsushita Electric Industrial and NEC lost Y20 each to Y2,510 and Y2,050.

The financial sector closed mixed. Nomura Securities gained Y80 to Y3,940 while Fuji Bank lost Y80 to Y3,350.

Noritake, which rose strongly the previous day on rumours of buying by speculators, turned down Y20 to Y1,070.

Bonds firmed on news that the dollar fell below Y127 momentarily on the Tokyo foreign exchange market. The yield on the benchmark 5.0 per cent government bond due in December 1997 ended at 4.410 per cent after falling from the previous day's 4.455 per cent finish to 4.405 per cent at one stage.

Institutional investors stayed out of the market pending the release tomorrow of US trade figures for January.

Equities continued to fall slightly on the Osaka Securities Exchange. The OSE stock average dropped 13.36 to 25,697.86 on a volume of 238m shares, up 79m shares from the previous day.

Taio Paper Manufacturing fell Y130 to Y2,020, while Nakayama Steel Works added Y80 to Y1,160 on a fast recovery in its earnings.

Australia

DECLINES among leading mining stocks and selected industrials dragged share prices down with the All Ordinaries index losing 2.9 to 1,359.1. The mining index was off 7.1 at 655.8.

Selling of gold stocks was one of the few features in otherwise lacklustre trade, and came in spite of steady bullion prices. Western Mining lost 24 cents to A$5, Kidston fell 23 cents to A$4.10, Placer Pacific lost 9 cents to A$1.58 and BHP Gold ended 6 cents lower at 84 cents.

Interest in North BH ended after its merger partner Peko-Wallsend was suspended, and North BH shares slumped 15 cents to A$2.60. The few mining stocks to rise included Metana, up 40 cents at A$8.

In industrials, attention focused on takeover stocks and thosa with recent profit announcements. IEL, which announced a 55 per cent slump in interim net profits and heavy share trading losses on Monday, fell 9 cents to A$1.53.

Singapore

A PAUSE for breath after several days of gains left share prices little changed to weaker in Singapore. Tha Straits Times industrial index eased 1.76 to 946.2 as institutions took to the sidelines for tomorrow's US trade figures.

However, a number of stocks attracted reasonable volume, including Singapore Land, subject of vague takeover rumours, which added 15 cents to S$6 as 103,000 shares changed hands.

DBS Land, also at the centre of recent bid talk, topped the active list, easing 1 cent to S$1.01 on 3.9m shares, which included a number of block deals.

David Dodwell examines the return of confidence

Hong Kong's high spirits overshadow lingering fear

"THE AVERAGE Hong Kong man in the street is watching the bustle in the department stores, watching the buoyant property market, and noting rock-bottom interest rates, and he's asking 'what crash?'," commented one stock market analyst yesterday.

Like many others, he was trying to rationalise why in the past two weeks the mood on Hong Kong's stock market has suddenly changed for the better. Daily turnover has leapt through the HK$1bn level for the first time in months, averaging almost HK$1.5bn over the past week.

The Hang Seng index, which appeared indelibly glued in the 2,800 to 2,400 range, has *jumped forward, now testing* the 2,600 level almost daily. The index shed 5.76 yesterday to close at 2,578.92.

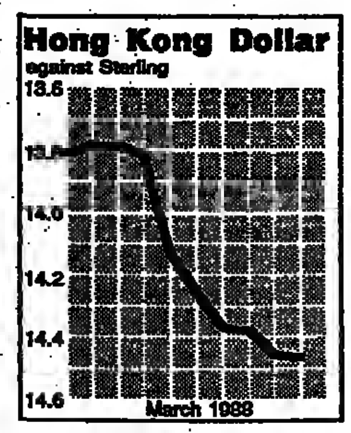
As with so much stock market analysis, the rationalisation has a powerful air of hindsight about it. The fact is that the buoyancy of the local economy in spite of the October stock market crash was as plain to see in December as it is today.

Similarly, it took few soothsaying talents to conclude in December that Hong Kong's blue chip companies – most of them ungeared and capitalising on a weak currency that guaranteed an important competitive edge over exporters in neighbouring Asian countries – were likely to cope better than *most with the hardships* that would be linked with worldwide recession.

What then has changed? First, many institutional investors who in December were preoccupied with shoring up portfolios in their home markets appear by now to have foresaken worries of imminent world recession, or of further stock market collapse.

Institutional funds, which fell from about 30 per cent of Hong Kong stock market turnover before October 19 to about 18 per cent of much-reduced turnover over the new year period, have again begun to rise – today accounting for perhaps a quarter of daily turnover.

In addition, a number of *stockbroking houses that were* "talking their book" when they said Hong Kong stocks were well underpinned are finally coming to put their money somewhere near where their mouths are.



Pound's strength drew buyers

Influential in this respect has been Morgan Stanley, which only a week ago called for an increase in the weighting of the Hong Kong market in investors' portfolios from 7 per cent to 15 per cent.

Confidence has been given substance by the annual corporate reporting season, which has so far provided confirmation of strong profits growth in 1987.

> Both Government and private sector predict economic growth that is giddying by most countries' standards

Looking ahead into 1988, both the Government and the private sector are predicting growth that is modest by comparison with 1987 but is giddying by most countries' standards.

Local investors, who have to some extent been steady sellers into recent market strength, have their own reasons for feeling more confident. Fears that major companies might have to make large –, perhaps crippling – provisions for speculative losses in the wake of October appear to have been unjustified. Provi*sions* there have been, but none so far on a scale that has done significant damage to a local company.

With local interest rates at record low levels – and the Government's threat of negative interest rates to stave off speculative pressure for a revalnation of the local currency – the incentive to move liquid funds out of local bank savings accounts and into the stock market has been almost irresistible.

While several local stock market analysts are now pointing to rises over the coming months that could lift the Hang Seng index close to the 3,000 level by the end of the year, all are careful to warn of potentially steep corrections on the way.

In the week ahead, soma observers say the release of US trade figures tomorrow could test the market mood. Fears that the Hongkong Bank could puncture sentimeot snbsided overnight as the bank revealed after-tax profits on target at HK$3.6bn, bnt few will relax mnch until Mr Li Kashing's flagship companies Chenng Kong and Hutchison Whampoa reveal results at the end of the month.

Even yesterday's British budget could have an impact. Following the steep rise in sterling's over the past week there has been a marked increase in investment in Hong Kong dollar stocks. If the bndget pnnctures this strength, many UK-based investors *may be tempted* to exit with exchange gains angmenting whatever trading profits they have accrued over the week.

Whatever the bluff and bluster of the past week, evidence of underlying nncertainty should not be dismissed. It may no longer be fashionable to take mnch notice of the once-favoured local futures market, but it is worth noting that the few trades in Hang Seng index futures yesterday put the index in May at 2,580 – within a whisker of last night's spot close.

It may be some time yet before speculators believe their own propaganda firmly enough to take those futures contracts – or individnal *shares for that matter – on to* more rarefied ground.

EUROPE

Optimism wins the day in thin trade

A CENERALLY optimistic mood helped push share prices slightly higher in most European bourses yesterday, but volume remained relatively low. Paris eased amid continued concern over the election outlook, while Frankfurt and Zurich took heart from the firmer dollar.

FRANKFURT was boosted by the upturn in the dollar against the D-Mark and ended higher in moderate trading in spite of concern over US trade figures.

The FAZ index rose 8.25 to 460.55 with retailing issues leading the way. Karstadt added DM20 to DM444 and Kaufhof rose DM11 to DM388.50.

In cars, Porsche rose DM20 to DM506.50, buoyed by the dollar's fixing at DM1.6659 against DM1.6588 on Monday. Volkswagen put on DM5.40 to DM238.90 amid reports of slightly improved car sales in the first two months of this year.

Bonds fell by up to 20 pfg in listless trading with yields at about 6.20 per cent.

MILAN ended its March trading account on an upbeat note led by strong demand for insurance stocks.

The MIB index added 10 to a high for the year of 1,052 – giving a rise of 13 per cent since the start of the trading account on February 15. Buying has been buoyed by renewed demand from overseas and even some from domestic mutual funds, which were net sellers up to mid-February.

De Benedetti stocks were in the limelight yesterday, with Buitoni rising L801 to L10,200 as the holding company Cir confirmed it had received offers for the food company. Cir ended L175 higher at L5,575.

Mediobanca added L6,550, or 3.7 per cent, to L184,500 on news of its 10-for-one stock split.

STOCKHOLM posted solid gains, helped by continued strong interest from overseas, with the Affaersvaerlden index adding 1.1 per cent to 810.4, its highest since late October.

Volume reached SKr462m against SKr350m the previous day and gains ontnumbered losses by more than two to one. Sentiment was helped by recent takeover activity and interest focused on larga engineering stocks and other blue chips.

In the forestry sector, SCA, which announced the sale for an undisclosed sum of half of its holding in Sunds Defibrator, added SKr3 to SKr339.

AMSTERDAM cooled off after an early burst of strength to end slightly higher on the day as the dollar turned weaker later and dampened sentiment.

Volume remained fairly low at Fl 216m, though up from Monday's Fl 180m, as investors awaited tomorrow's US trade figures. The CBS all-share index closed 0.8 higher at 82.4.

Wall Street's overnight gains *and early firmness in the dollar* helped lift prices at first. The market also took a positive view of government plans to reduce corporate tax rates to 35 per cent from 42 per cent, although these had already been largely discounted in prices.

Food retailer Ahold picked up 20 cents to Fl 75.50 before its suspension pending tha announcement of flat 1987 profits, which analysts said were broadly in line with expectations.

PARIS remained very lacklustre amid uncertainty over the presidential election and the US trade data. A technical hitch prevented qnotations reaching screens in early trading, but this apparently had little impact on already low volumes.

The CAC General index, based on opening prices, was off 0.1 at 294.7 and the Indicateur de Tendance shed 0.20 to 106.30.

Despite a general lack of company news, tool manufacturer Facom dropped FFr34 to FFr790 after surging on Monday on takeover speculation. Vallourec, the steel pipe maker, jumped FFr9 to FFr80 after a local broker's recommendation.

Saint Gobain, reported to be planning to increase its offer for tha shares it does not already own in Certain-teed of the US, was up FFr1 at FFr413. Hachette, bidding for fellow US publisher Grolier, added FFr30 to FFr1,730.

BRUSSELS finished lower in relatively thin trading in spite of a late upturn, with the cash market index losing 41.1 to 4,842.83.

Volume was 42,600 shares, compared with 32,400 on Monday and 135,000 last Friday, as buying interest faded after rumoured bids failed to materialise.

Retail GB-Inno fell another BFr32 to BFr1,180, while Sofina added BFr75 to BFr12,700 on news of a 6 per cent dividend increase.

ZURICH was helped by the firmer dollar and previous gains on Wall Street and closed slightly higher across the board.

The Crédit Suisse index added 4.4 to 463.2 in fairly high turnover. Jacobs-Suchard, which announced plans for a capital increase, lost SFr50 to SFr8,500.

MADRID rose on rumours of a negative domestic inflation rate for February, with the all share index climbing 1.75 to 266.85.

London

THE UK Budget met general approval from the London securities market, with the FT-SE 100 index closing np 20.4 at 1,839.9 in high turnover.

The restructuring of capital gains tax did raise some concern since it could prompt selling of securities held by insurance companies since before April 1982. They will now be exempt from the tax.

Among internationals, Glaxo continued to make headway following a favourabla response by analysts to its half-way figures, with 1.9m shares traded. Other internationals traded firmly before succumbing to the rise in sterling.

SOUTH AFRICA

CAUTION in the run-up to today's national budget kept gold stocks in check, with most easing slightly in spite of a stable bullion price at $442 an ounce.

Southvaal slipped R3 to *R110* and Kloof lost R1.15 to R31.35.

FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY MARCH 14 1988					FRIDAY MARCH 11 1988			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1987/88 High	1987/88 Low	Year ago (approx)
Australia (91)	110.73	+0.7	88.40	100.83	4.18	110.00	88.01	100.09	180.81	85.96	112.68
Austria (16)	90.68	-0.5	72.35	78.31	2.68	90.86	72.69	78.33	102.87	84.35	94.34
Belgium (48)	135.24	-0.5	108.20	116.23	4.11	135.94	108.77	117.00	139.91	94.63	115.91
Canada (126)	120.45	-0.4	96.37	109.68	2.99	120.98	96.80	109.99	141.78	98.15	112.74
Denmark (38)	121.50	-0.4	97.21	105.06	2.80	121.94	97.57	105.40	124.83	98.18	112.85
Finland (23)	121.41	-0.2	97.14	102.19	1.94	121.61	97.30	102.48	-	-	-
France (122)	85.53	+0.1	68.43	75.80	4.09	85.46	68.38	75.71	121.82	77.62	114.12
West Germany (94)	78.83	-0.2	63.07	68.16	2.71	78.98	63.19	68.21	104.93	67.78	87.33
Hong Kong (46)	100.54	-0.1	80.44	100.66	4.22	100.64	80.52	100.80	158.68	73.92	105.99
Ireland (14)	120.77	+0.6	96.63	105.76	4.17	120.03	96.03	105.11	160.22	93.50	120.15
Italy (94)	76.63	-0.3	61.31	70.45	2.75	76.89	61.52	70.75	112.11	62.99	99.14
Japan (457)	162.31	-0.5	129.87	130.20	0.56	163.10	130.49	131.29	163.67	100.00	123.24
Malaysia (36)	118.27	+1.0	94.63	116.27	3.30	117.08	93.67	114.91	193.64	73.76	127.89
Mexico (14)	155.92	+2.0	124.75	387.84	0.92	152.93	122.36	380.72	422.59	90.07	129.18
Netherland (37)	107.16	+0.3	85.74	91.41	5.01	106.85	85.49	91.07	131.41	87.70	109.00
New Zealand (23)	76.89	-0.2	61.52	60.85	5.42	77.07	61.67	60.93	138.99	64.42	93.08
Norway (24)	117.22	+0.3	93.78	100.39	3.02	116.85	93.49	100.20	185.01	95.51	121.37
Singapore (26)	112.65	+1.6	90.13	104.47	2.29	110.87	88.71	102.88	174.28	81.21	115.79
South Africa (61)	137.73	+1.3	110.19	81.38	5.24	135.97	108.79	80.54	198.09	100.00	134.76
Spain (43)	146.01	+0.0	116.82	123.83	3.39	145.96	116.78	123.90	168.81	100.00	113.98
Sweden (32)	119.26	-0.5	95.42	104.34	2.66	119.82	95.87	104.88	136.64	88.50	109.46
Switzerland (53)	85.76	+0.2	68.61	72.97	2.32	85.61	68.49	72.79	111.11	73.65	96.12
United Kingdom (327)	139.57	+0.4	111.67	111.67	4.27	138.98	111.20	111.20	142.67	99.65	127.37
USA (585)	108.58	+0.6	86.88	108.58	3.47	107.99	86.40	107.99	137.42	91.21	118.87
Europe (965)	109.56	+0.2	87.66	91.83	3.78	109.38	87.51	91.68	130.02	92.25	110.81
Pacific Basin (679)	157.85	-0.4	126.30	127.77	0.72	158.54	126.85	128.76	158.80	100.00	122.14
Euro-Pacific (1644)	138.55	-0.2	110.86	113.46	1.69	138.90	111.13	114.00	143.65	100.00	117.63
North America (711)	109.22	+0.5	87.38	108.67	3.44	108.68	86.96	108.13	137.55	91.68	119.54
Europe Ex. UK (638)	90.96	-0.1	72.78	79.37	3.33	91.03	72.83	79.41	111.97	78.89	100.56
Pacific Ex. Japan (222)	104.05	+0.4	83.25	96.87	4.15	103.62	82.91	96.44	154.03	82.92	108.71
World Ex. US (1845)	137.94	-0.2	110.37	113.12	1.77	138.27	110.63	113.64	143.38	100.00	118.19
World Ex. UK (2103)	125.33	+0.0	100.27	111.50	2.12	125.36	100.30	111.71	138.82	100.00	117.60
World Ex. So. Af. (2369)	126.51	+0.0	101.22	111.73	2.31	126.49	101.21	111.87	139.47	100.00	118.36
World Ex. Japan (1973)	109.46	+0.4	87.58	102.08	3.61	109.04	87.24	101.69	134.22	92.98	116.19
The World Index (2430)	126.58	+0.0	101.28	111.52	2.33	126.56	101.26	111.66	139.73	100.00	118.46

Base values: Dec 31, 1986 = 100, Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).

Latest prices were unavailable for this edition.